

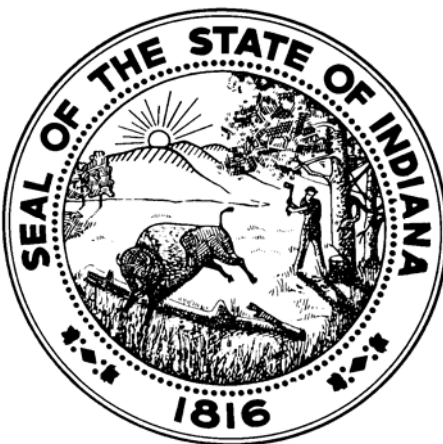
**STATE BOARD OF ACCOUNTS  
302 West Washington Street  
Room E418  
INDIANAPOLIS, INDIANA 46204-2765**

ANNUAL FINANCIAL REPORT

2004

CITY OF GARY

LAKE COUNTY, INDIANA





## TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Officials .....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards .....	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5-6
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	7-8
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	10
Statement of Revenues, Expenditures and Other Changes in Fund Balances – Governmental Funds .....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Statement of Net Assets – Proprietary Funds.....	13-14
Statement of Revenues, Expenses and Other Changes in Fund Net Assets – Proprietary Funds.....	15
Statement of Cash Flows – Proprietary Funds.....	16-17
Statement of Fiduciary Net Assets – Fiduciary Funds .....	18
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund .....	19
Notes to Financial Statements .....	20-50
Required Supplementary Information:	
Schedules of Funding Progress.....	51
Schedules of Contributions From the Employer and Other Contributing Entities .....	52
Other Reports.....	53
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	
Schedule of Expenditures of Federal Awards.....	56-57
Notes to Schedule of Expenditures of Federal Awards .....	58-62
Schedule of Findings and Questioned Costs.....	63
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	64-72
Corrective Action Plan.....	73-81
Exit Conference.....	82-90
	91

## OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Mr. Husain G. Mahmoud	01-01-04 to 12-31-05
Mayor	Mr. Scott L. King	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Ms. Geraldine B. Tousant	01-01-04 to 12-31-05
President of the Common Council	Ms. Carolyn D. Rogers Mr. Charles Hughes	01-01-04 to 12-31-04 01-01-05 to 12-31-05



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Gary (City), as of and for the year ended December 31, 2004, which collectively comprise the City's primary government basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States.

Schedules of Funding Progress and Schedules of Contributions From the Employer and Other Contributing Entities as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management Discussion and Analysis, or Budgetary Comparison Schedules, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated July 21, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS  
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

July 21, 2005



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

We have audited the financial statements of the City of Gary (City), as of and for the year ended December 31, 2004, and have issued our report thereon dated July 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2004-1.

However, we noted certain immaterial instances of noncompliance that we have discussed with the management of the City on June 1, 2005. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS  
(Continued)

internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2004-1 to be a material weakness.

However, we noted other matters involving the internal control over financial reporting that we have discussed with the management of the City on June 1, 2005. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 21, 2005

CITY OF GARY  
STATEMENT OF NET ASSETS  
December 31, 2004

<u>Assets</u>	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 2,091,779	\$ 13,692,136	\$ 15,783,915
Investments	750,000	-	750,000
Receivables (net of allowances for uncollectibles):			
Taxes	55,505,298	6,336,005	61,841,303
Accounts	2,195,719	8,907,486	11,103,205
Intergovernmental	7,244,247	448,584	7,692,831
Employee contributions	903	-	903
Loans	13,750	-	13,750
Due from fiduciary funds	128,007	-	128,007
Internal balances	(5,000,000)	5,000,000	-
Inventories	142,688	810,954	953,642
Prepaid expense	203,974	36,712	240,686
Restricted assets:			
Cash and cash equivalents	2,124,364	10,245,628	12,369,992
Investments	1,451,718	-	1,451,718
Restricted receivables (net of allowances for uncollectibles):			
Taxes	23,886	1,553,163	1,577,049
Intergovernmental	901,399	641,736	1,543,135
Deferred debits	6,213,148	420,502	6,633,650
Capital assets:			
Land and construction in progress	16,570,766	2,852,597	19,423,363
Other capital assets, net of depreciation	187,297,347	151,247,515	338,544,862
<b>Total assets</b>	<b>277,858,993</b>	<b>202,193,018</b>	<b>480,052,011</b>
 <u>Liabilities</u>			
Accounts payable	6,050,783	2,743,904	8,794,687
Accrued payroll and withholdings payable	2,989,193	73,877	3,063,070
Compensated absences	-	72,501	72,501
Estimated claims payable	1,122,409	-	1,122,409
Taxes payable	3,021	-	3,021
Accrued interest payable	936,017	-	936,017
Deposit payable for rental contracts	6,375	-	6,375
Loans payable	729,996	-	729,996
Due to fiduciary funds	3,141,000	-	3,141,000

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF NET ASSETS  
December 31, 2004  
(Continued)

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Liabilities (continued)</u>			
Tax anticipation warrants	44,623,440	-	44,623,440
Payable from restricted assets:			
Accounts payable	821,879	4,329	826,208
Accrued payroll and withholdings payable	186,744	-	186,744
Contracts payable	-	245,843	245,843
Accrued interest payable	216,848	495,741	712,589
General obligation bonds - due within one year	-	1,055,000	1,055,000
Loans - due within one year	-	1,795,000	1,795,000
Revenue bonds - due within one year	3,603,911	-	3,603,911
Capital lease obligations - due within one year	1,863,306	-	1,863,306
Long-term liabilities:			
General obligation bonds payable (net of unamortized premiums and unamortized loss on refunding)	-	9,944,317	9,944,317
Compensated absences	2,440,901	-	2,440,901
Revenue bonds payable	20,150,619	-	20,150,619
Deferral of loss on refunding	-	(697,559)	(697,559)
Loans payable	8,367,122	18,485,095	26,852,217
Capital lease obligations	1,170,352	-	1,170,352
Estimated claims and judgments	150,000	-	150,000
Landfill closure and post-closure costs	1,713,671	-	1,713,671
Net pension obligation	58,512,423	-	58,512,423
Total liabilities	158,800,010	34,218,048	193,018,058
<u>Net Assets</u>			
Invested in capital assets, net of related debt	177,899,474	123,518,259	301,417,733
Restricted for:			
Highways and streets	308,412	-	308,412
Debt service	64,161	5,609,094	5,673,255
Capital improvements	1,283,461	12,095,875	13,379,336
Other purposes	483,567	-	483,567
Unrestricted	(60,980,092)	26,751,742	(34,228,350)
Total net assets	\$ 119,058,983	\$ 167,974,970	\$ 287,033,953

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government:							
Governmental activities:							
General government	\$ 55,232,895	\$ 1,961,000	\$ 6,584,942	\$ 563,420	\$ (46,123,533)	\$ -	\$ (46,123,533)
Public safety	53,691,631	501,888	4,402,231	500,584	(48,286,928)	-	(48,286,928)
Highways and streets	5,160,161	-	3,649,941	1,462,379	(47,841)	-	(47,841)
Sanitation	781,633	-	538,036	720,204	476,607	-	476,607
Health and welfare	4,490,307	301,664	2,323,525	-	(1,865,118)	-	(1,865,118)
Culture and recreation	8,351,134	2,307,532	500	-	(6,043,102)	-	(6,043,102)
Urban housing and redevelopment	5,571,283	37,055	4,737,400	215,843	(580,985)	-	(580,985)
Interest on long-term debt	<u>2,503,238</u>	-	-	-	<u>(2,503,238)</u>	-	<u>(2,503,238)</u>
Total governmental activities	<u>135,782,282</u>	<u>5,109,139</u>	<u>22,236,575</u>	<u>3,462,430</u>	<u>(104,974,138)</u>	<u>-</u>	<u>(104,974,138)</u>
Business-type activities:							
Sanitary District	<u>50,510,681</u>	<u>28,316,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,194,558)</u>	<u>(22,194,558)</u>
Total primary government	<u>\$ 186,292,963</u>	<u>\$ 33,425,262</u>	<u>\$ 22,236,575</u>	<u>\$ 3,462,430</u>	<u>(104,974,138)</u>	<u>(22,194,558)</u>	<u>(127,168,696)</u>
General revenues:							
Property taxes					59,996,934	14,398,138	74,395,072
Intergovernmental revenues:							
Excise taxes					2,223,114	1,172,805	3,395,919
Circuit breaker taxes					3,666,758	527,797	4,194,555
Financial institutions taxes					546,146	-	546,146
Gaming taxes					16,377,118	-	16,377,118
Cigarette taxes					101,845	-	101,845
Alcoholic beverage taxes					333,505	-	333,505
Grants and contributions not restricted to specific programs					13,273,306	4,804,235	18,077,541
Other					3,297,731	-	3,297,731
Unrestricted investment earnings					46,969	169,525	216,494
Transfers					<u>1,193,999</u>	<u>(1,193,999)</u>	<u>-</u>
Total general revenues and transfers					<u>101,057,425</u>	<u>19,878,501</u>	<u>120,935,926</u>
Change in net assets					(3,916,713)	(2,316,057)	(6,232,770)
Net assets - beginning - note IV. J.					<u>122,975,696</u>	<u>170,291,027</u>	<u>293,266,723</u>
Net assets - ending					<u>\$ 119,058,983</u>	<u>\$ 167,974,970</u>	<u>\$ 287,033,953</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2004

<u>Assets</u>	General	Gaming Revenues	Other Governmental Funds	Totals
Cash and cash equivalents	\$ -	\$ -	\$ 1,988,303	\$ 1,988,303
Investments	-	-	750,000	750,000
Receivables (net of allowances for uncollectibles):				
Taxes	46,813,544	-	8,691,754	55,505,298
Accounts	737,068	675,133	668,762	2,080,963
Intergovernmental	4,007,095	2,215,536	1,021,616	7,244,247
Loans	-	-	13,750	13,750
Interfund loans	905,000	11,003,231	3,558,478	15,466,709
Restricted assets:				
Cash and cash equivalents	-	-	2,124,364	2,124,364
Investments	-	-	1,451,718	1,451,718
Accounts receivable	-	-	23,886	23,886
Intergovernmental receivable	-	-	901,399	901,399
Interfund loans receivable	-	-	3,406,700	3,406,700
Total assets	<u>\$ 52,462,707</u>	<u>\$ 13,893,900</u>	<u>\$ 24,600,730</u>	<u>\$ 90,957,337</u>

Liabilities and Fund Balances

Liabilities:				
Accounts payable	\$ 2,982,023	\$ 137,982	\$ 2,930,778	\$ 6,050,783
Accrued payroll and withholdings payable	2,647,318	-	341,875	2,989,193
Interfund loans payable	24,296,566	814,243	897,000	26,007,809
Sales taxes payable	-	-	3,021	3,021
Deposits payable for rental contracts	-	-	6,375	6,375
Claims and judgments payable	403,191	-	-	403,191
Tax anticipation warrants payable	40,108,385	-	4,515,055	44,623,440
Deferred revenue	50,275,471	-	9,104,531	59,380,002
Payable from restricted assets:				
Accounts payable	-	-	821,879	821,879
Accrued payroll and withholdings payable	-	-	186,744	186,744
Interfund loans payable	-	-	300,000	300,000
Deferred revenue	-	-	63,903	63,903
Total liabilities	<u>120,712,954</u>	<u>952,225</u>	<u>19,171,161</u>	<u>140,836,340</u>
Fund balances:				
Reserved for:				
Encumbrances	(3,131,866)	606,924	(3,934,616)	(6,459,558)
Loans receivable	-	-	(13,750)	(13,750)
Debt service	-	-	1,217,026	1,217,026
Unreserved, reported in:				
General fund	(65,118,381)	-	-	(65,118,381)
Special revenue funds	-	12,334,751	5,407,905	17,742,656
Capital projects funds	-	-	2,753,004	2,753,004
Total fund balances	<u>(68,250,247)</u>	<u>12,941,675</u>	<u>5,429,569</u>	<u>(49,879,003)</u>
Total liabilities and fund balances	<u>\$ 52,462,707</u>	<u>\$ 13,893,900</u>	<u>\$ 24,600,730</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	203,868,113
Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	346,662
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	59,443,905
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(500,083)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(35,129,595)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(58,512,423)
Change in interfund receivables and payables that were made between governmental and fiduciary funds.	(578,593)

Net assets of governmental activities \$ 119,058,983

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For The Year Ended December 31, 2004

	General	Casino Gaming	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 31,480,791	\$ -	\$ 6,728,822	\$ 38,209,613
Licenses and permits	695,940	-	11,226	707,166
Intergovernmental	3,972,154	16,377,118	15,962,582	36,311,854
Charges for services	1,034,553	-	2,029,651	3,064,204
Fines and forfeits	158,895	-	50,905	209,800
Other	<u>3,391,322</u>	<u>13,281,049</u>	<u>4,872,543</u>	<u>21,544,914</u>
Total revenues	<u>40,733,655</u>	<u>29,658,167</u>	<u>29,655,729</u>	<u>100,047,551</u>
Expenditures:				
Current:				
General government	35,156,638	1,598,670	2,215,128	38,970,436
Public safety	40,374,197	-	3,467,138	43,841,335
Highways and streets	-	1,021	4,127,288	4,128,309
Sanitation	-	-	797,907	797,907
Health and welfare	1,288,052	777,013	2,414,634	4,479,699
Culture and recreation	-	-	7,126,448	7,126,448
Urban redevelopment and housing	500,232	1,474,731	5,793,767	7,768,730
Debt service:				
Principal	-	-	6,241,765	6,241,765
Interest and fiscal charges	-	-	1,188,451	1,188,451
Capital outlay:				
General government	-	-	3,153,134	3,153,134
Highways and streets	-	-	346,341	346,341
Sanitation	-	-	468,948	468,948
Urban redevelopment and housing	<u>-</u>	<u>-</u>	<u>6,951,223</u>	<u>6,951,223</u>
Total expenditures	<u>77,319,119</u>	<u>3,851,435</u>	<u>44,292,172</u>	<u>125,462,726</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(36,585,464)</u>	<u>25,806,732</u>	<u>(14,636,443)</u>	<u>(25,415,175)</u>
Other financing sources (uses):				
Transfers in	10,836,567	2,655,027	14,270,379	27,761,973
Transfers out	(163,800)	(20,986,310)	(4,350,872)	(25,500,982)
Interfund loans received	23,101,729	9,031,641	1,697,000	33,830,370
Interfund loans disbursed	<u>(23,166,641)</u>	<u>(13,598,931)</u>	<u>(5,823,798)</u>	<u>(42,589,370)</u>
Total other financing sources and uses	<u>10,607,855</u>	<u>(22,898,573)</u>	<u>5,792,709</u>	<u>(6,498,009)</u>
Net change in fund balances	(25,977,609)	2,908,159	(8,843,734)	(31,913,184)
Fund balances - beginning	<u>(42,272,638)</u>	<u>10,033,516</u>	<u>14,273,303</u>	<u>(17,965,819)</u>
Fund balances - ending	<u>\$ (68,250,247)</u>	<u>\$ 12,941,675</u>	<u>\$ 5,429,569</u>	<u>\$ (49,879,003)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For The Year Ended December 31, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances).	\$ (31,913,184)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciat expense. This is the amount by which capital outlays exceeded depreciation in the current period.	10,427,124
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(283,188)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	18,312,505
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to govern- mental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	5,451,635
Net pension obligations are considered long-term obligations of the general government, but are not current expenditures.	(7,928,045)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	65,675
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	<u>1,950,765</u>
Change in net assets of governmental activities (statement of activities)	<u><u>\$ (3,916,713)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2004

	Business-Type Activities - Enterprise Fund	Governmental Activities
	Sanitary District	Internal Service Fund
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 13,692,136	\$ 103,476
Receivables (net of allowance):		
Taxes	6,336,005	-
Accounts	8,907,486	114,756
Intergovernmental	448,584	-
Employer contributions	-	388,052
Employee contributions	-	903
Inventories	810,954	-
Prepaid items	36,712	-
	<u>30,231,877</u>	<u>607,187</u>
Total current assets		
Noncurrent assets:		
Restricted cash, cash equivalents and investments:		
Bond covenant accounts	4,903,910	-
Federally restricted accounts	5,341,718	-
Restricted receivables (net of allowance):		
Taxes	1,553,163	-
Intergovernmental	641,736	-
Interfund loans	5,000,000	-
	<u>17,440,527</u>	<u>-</u>
Total restricted assets		
Deferred charges	420,502	-
Capital assets:		
Land and construction in progress	2,852,597	-
Other capital assets (net of accumulated depreciation)	151,247,515	-
	<u>154,100,112</u>	<u>-</u>
Total capital assets		
Total noncurrent assets	<u>171,961,141</u>	<u>-</u>
Total assets	<u>202,193,018</u>	<u>607,187</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
December 31, 2004  
(Continued)

	Business-Type Activities - Enterprise Fund	Governmental Activities
	Sanitary District	Internal Service Fund
<u>Liabilities</u>		
Current liabilities:		
Accounts payable	2,743,904	-
Accrued payroll and withholdings payable	73,877	-
Compensated absences	72,501	-
Estimated claims payable	-	719,218
Interfund loans payable	-	578,593
Current liabilities payable from restricted assets:		
Accounts payable	4,329	-
Contracts payable	245,843	-
Accrued interest payable	495,741	-
General obligation bonds payable	1,055,000	-
Loans payable	1,795,000	-
Total current liabilities	<u>6,486,195</u>	<u>1,297,811</u>
Noncurrent liabilities:		
General obligation bonds payable (net of unamortized discounts)	9,944,317	-
Deferral of loss on refunding	(697,559)	-
Loans payable	18,485,095	-
Total noncurrent liabilities	<u>27,731,853</u>	<u>-</u>
Total liabilities	<u>34,218,048</u>	<u>1,297,811</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	123,518,259	-
Restricted for debt service	5,609,094	-
Restricted for capital improvements	12,095,875	-
Unrestricted	26,751,742	(690,624)
Total net assets	<u>\$ 167,974,970</u>	<u>\$ (690,624)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2004

	Business-Type Activities - Enterprise Fund	Governmental Activities
	Sanitary District	Internal Service Fund
Operating revenues:		
Flat rate revenues	\$ 10,795,451	\$ -
Measured revenue:		
Residential	7,540,863	-
Commercial and industrial	7,697,676	-
Governmental	1,935,005	-
Employer contributions	-	9,524,005
Employee contributions	-	852,560
Other	347,128	609,858
	<u>28,316,123</u>	<u>10,986,423</u>
Total operating revenues		
	<u>28,316,123</u>	<u>10,986,423</u>
Operating expenses:		
Treatment and disposal expense - operations and maintenance	31,163,162	-
Customer accounts	744,771	-
Administration and general	5,727,920	-
Depreciation and amortization	5,887,270	-
Sanitation	5,958,668	-
Insurance claims and premiums	-	10,198,760
	<u>49,481,791</u>	<u>10,198,760</u>
Total operating expenses		
	<u>49,481,791</u>	<u>10,198,760</u>
Operating income (loss)	<u>(21,165,668)</u>	<u>787,663</u>
Nonoperating revenues (expenses):		
Property taxes	14,398,138	-
Intergovernmental	1,700,602	-
Interest and investment revenue	169,525	-
Operating grants and contributions	420,795	-
Loss on disposal of capital assets	(11,083)	-
Interest expense	(1,017,807)	-
	<u>15,660,170</u>	<u>-</u>
Total nonoperating revenue		
	<u>15,660,170</u>	<u>-</u>
Income (loss) before contributions and transfers	(5,505,498)	787,663
Capital grants and contributions	4,383,440	-
Transfers out	(1,193,999)	(201)
	<u>(2,316,057)</u>	<u>787,462</u>
Change in net assets		
	<u>(2,316,057)</u>	<u>787,462</u>
Total net assets - beginning (restated) - note IV. J.	<u>170,291,027</u>	<u>(1,478,086)</u>
Total net assets - ending	<u>\$ 167,974,970</u>	<u>\$ (690,624)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2004

	Business-Type Activities - Enterprise Fund Sanitary District	Governmental Activities Internal Service Fund
Cash flows from operating activities:		
Receipts from customers and users	\$ 29,814,163	\$ 945,568
Receipts from interfund services provided	-	10,116,273
Payments to suppliers and employees	(44,420,095)	-
Payments to providers and insurers	-	(11,314,205)
Net cash used by operating activities	(14,605,932)	(252,364)
Cash flows from noncapital financing activities:		
Temporary loan from other funds	5,000,000	578,593
Operating grants received	420,795	-
Transfer to other funds	(1,193,999)	(201)
Net cash provided by noncapital financing activities	4,226,796	578,392
Cash flows from capital and related financing activities:		
Property taxes and intergovernmental	12,251,097	-
Proceeds from capital debt	3,910,052	-
Capital grants and contributions	3,828,675	-
Acquisition and construction of capital assets	(8,177,190)	-
Principal paid on capital debt	(2,934,000)	-
Interest paid on capital debt	(1,033,567)	-
Net cash provided by capital and related financing activities	7,845,067	-
Cash flows from investing activities:		
Interest received	478,447	-
Net increase (decrease) in cash and cash equivalents	(2,055,622)	326,028
Cash and cash equivalents, January 1 (Including \$100, \$3,861,373 and \$6,124,740 for the employee worker compensation claims, bond covenant accounts and federally restricted accounts, respectively, reported in restricted accounts)	25,993,386	(222,552)
Cash and cash equivalents, December 31 (Including \$4,903,910 and \$5,341,718 for the bond covenant accounts and federally restricted accounts, respectively, reported in restricted accounts)	\$ 23,937,764	\$ 103,476

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For The Year Ended December 31, 2004  
(Continued)

	Business-Type Activities - Enterprise Fund Sanitary District	Governmental Activities Internal Service Fund
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	\$ (21,165,668)	\$ 787,663
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation expense	5,887,270	-
(Increase) decrease in assets:		
Accounts receivable	1,498,040	(112,023)
Inventories	(7,363)	-
Prepaid items	(15,699)	-
Employer contributions receivable	-	584,710
Employee contributions receivable	-	2,731
Increase (decrease) in liabilities:		
Accounts payable	920,019	-
Accrued payroll and withholdings payable	8,743	-
Contracts payable	(1,723,451)	-
Compensated absence payable	(7,823)	-
Interfund payable	-	(400,000)
Estimated claims payable	-	(1,115,445)
Total adjustments	6,559,736	(1,040,027)
Net cash used by operating activities	\$ (14,605,932)	\$ (252,364)
Noncash investing, capital and financing activities:		
Transfer of completed construction in progress to capital assets	\$ 17,900,859	
Capital assets acquired thru contracts payable	245,843	
Capital assets acquired thru capitalization of interest on SRF loan	176,322	
Amortization of bond premium	32,146	
Amortization of bond issuance costs	46,723	
Amortization of deferral of loss on refunding	77,507	

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
December 31, 2004

<u>Assets</u>	Pension Trust Funds	Agency Funds
Cash and cash equivalents	\$ -	\$ 3,912,138
Receivables:		
Employer contributions (net of allowance)	569,489	-
Due from governmental funds	3,141,000	-
Loans	-	6,453,932
Intergovernmental	-	31,104
Total receivables	3,710,489	6,485,036
Total assets	3,710,489	\$ 10,397,174
<u>Liabilities</u>		
Accounts payable	289	\$ 13,141
Accrued payroll and withholding payable	-	1,965,125
Trust payable	-	8,418,908
Due to governmental funds	128,007	-
Total liabilities	128,296	\$ 10,397,174
<u>Net Assets</u>		
Held in trust for:		
Employees' pension benefits and other purposes	3,582,193	
Total net assets	\$ 3,582,193	

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
For The Year Ended December 31, 2004

	Pension Trust Funds
<u>Additions</u>	
Contributions:	
Employer	\$ 9,353,239
Plan members	<u>269,048</u>
Total contributions	<u>9,622,287</u>
Investment income:	
Interest	<u>9,158</u>
Total additions	<u>9,631,445</u>
<u>Deductions</u>	
Benefits	12,048,849
Administrative expense	<u>50,520</u>
Total deductions	<u>12,099,369</u>
Changes in net assets	(2,467,924)
Net assets - beginning	<u>6,050,117</u>
Net assets - ending	<u><u>\$ 3,582,193</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Gary (primary government) was established under the laws of the State of Indiana. The primary government operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health, welfare and social services, culture and recreation, public improvements, planning and zoning, general administrative services, wastewater disposal, and urban redevelopment and housing.

The accompanying financial statements present the activities of the primary government and its significant component units. The component units discussed below are included in the primary government's reporting entity because of the significance of their operational or financial relationships with the primary government. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government.

Blended Component Units

The Gary Building Corporation is a significant blended component unit of the primary government. The primary government appoints a voting majority of the Gary Building Corporation's board and a financial benefit/burden relationship exists between the primary government and the Gary Building Corporation. Although it is legally separate from the primary government, the Gary Building Corporation is reported as if it were a part of the primary government because it provides services entirely or almost entirely to the primary government.

The Gary Redevelopment Authority is a significant blended component unit of the primary government. The primary government appoints a voting majority of the Gary Redevelopment Authority's board and a financial benefit/burden relationship exists between the primary government and the Gary Redevelopment Authority. Although it is legally separate from the primary government, the Gary Redevelopment Authority is reported as if it were a part of the primary government because it provides services entirely or almost entirely to the primary government.

Joint Venture

The primary government is a participant with the City of Hammond and the City of East Chicago in a joint venture to operate the Gary/Hammond/East Chicago Empowerment Zone which was created to create new jobs empowering low-income persons and families to become economically self-sufficient. The primary government is obligated by contract to be the lead entity to administer all federal grant funds provided for use in the Empowerment Zone. The Empowerment Zone uses its resources to undertake special projects for the primary government. The Empowerment Zone's continued existence depends on the primary government's ability to be awarded continued federal funding. The Empowerment Zone's financial activity is included as Agency Funds of the City of Gary.

Related Organizations

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints the board members of the following organizations:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Gary Housing Authority  
Gary Public Transportation Corporation  
Gary/Chicago Regional Airport Authority  
Gary Economic Development Corporation

B. Government-Wide and Fund Financial Statements

Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the primary government receives cash.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The primary government reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The gaming revenues fund is a special revenue fund. It accounts for the financial resources received from the State of Indiana as gaming admissions taxes.

The primary government reports the following major proprietary fund:

The sanitary district fund accounts for the operation of the primary government's wastewater treatment plant, pumping stations and collection systems.

Additionally, the primary government reports the following fund types:

The internal service funds accounts for group health insurance, unemployment and workmen's compensation programs provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds which accumulate resources for pension benefit payments.

Agency funds account for assets held by the primary government as an agent for the federal government, state government, and other local governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The primary government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the component unit and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The primary government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the primary government to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Interfund Transactions and Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables" (i.e., the current and noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and November 10, respectively. Delinquent property taxes outstanding at year end for governmental and/or proprietary funds, net of allowances for uncollectible accounts, are recorded as a receivable with an offset to deferred revenue since the amounts are not considered available.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Property tax rates and levies were not established by February 15, 2004, as required by statute, due to the delay in the completion of the 2003 reassessment of Lake County. The final tax bills that were payable in 2003 were sent out in June 2004. Tax bills that were payable in 2004 were mailed to Lake County residents in March 2005. They are due in two installments on April 27, 2005, and June 23, 2005. The County Auditor has set dates for settlement and distribution of these monies in August 2005. This resulted in reduced tax revenues for the City in 2004.

4. Inventories Value Receivable and Prepaid Items

In accordance with a contractual agreement with White River Environmental Partnership (WREP), the inventory in the business-type activity, as valued at June 1, 1998, and adjusted to current year value based upon the consumer price index, by an independent consultant, has been recorded as a long-term receivable. The inventory must be returned to the City's business-type activity at the end of the ten year contract term, at the adjusted value.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the enterprise fund general obligation bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because of constraints placed on their use by grantors, bond covenants, or state statute. The liabilities related to these assets have also been classified as restricted.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life (in Years)
Buildings	\$ 50,000	Straight-line	25 to 50
Improvements to buildings	25,000	Straight-line	5
Buildings and improvements – business-type activity	25,000	Straight-line	20
Transmission and lines – business-type activity	25,000	Straight-line	10 to 50
Equipment	5,000	Straight-line	3 to 10
Machinery and equipment – business-type activity	25,000	Straight-line	5 to 20
Infrastructure	75,000	Straight-line	75

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the primary government in its business-type activities during the current year was \$1,017,807. Of the amount, \$176,322 was included as part of the cost of capital assets under construction in connection with the State Revolving Loan Fund projects, which include plant electrical power upgrades, aeration system improvements, and upgrades and extensions of sewer lines.

7. Compensated Absences

- a. Sick Leave – primary government employees earn sick leave at the rate of one day per month. Unused sick leave may be accumulated to a maximum of ninety days. Accumulated sick leave is not paid to employees upon termination.

Business-type activity employees (Gary Sanitary District) earn sick leave at the rate of one day per month. Unused sick leave may be accumulated to a maximum of fifteen days. Accumulated sick leave may be paid to employees thru cash payments upon employee request.

- b. Vacation Leave – employees earn vacation leave at rates from ten days to twenty-five days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of one year in vacation time. Accumulated vacation leave is paid to employees through cash payments upon termination.

Vacation and sick leave is accrued when incurred.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

10. Reclassified Prior Year Data

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. See note IV. J., Restatements and Reclassifications, for more information on reclassified prior year data.

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide State of Net Assets

<u>Description</u>	<u>Amount</u>
Total fund balances on the governmental fund balance sheet	\$ (49,879,003)
Capital assets used in governmental activities that are not reported in the funds	203,868,113
Other long-term assets not available to pay for current period expenditures and are deferred in the funds	59,443,905
Assets used in governmental activities that are not reported in the funds	346,662
Internal service funds used by management to charge the costs of certain services to individual funds	(500,083)
Long-term liabilities, including bonds payable, not due and payable in the current period and not reported in the funds:	
Compensated absences	(2,440,901)
Claims and judgments	(150,000)
Revenue bonds, net of deferred debits	(17,541,382)
Loans payable	(9,097,118)
Capital lease obligations	(3,033,658)
Accrued interest payable	(1,152,865)
Landfill closure and postclosure costs	(1,713,671)
Net pension obligation	(58,512,423)
Change in interfund receivable not eliminated	<u>(578,593)</u>
Government-wide statement of net assets	<u><u>\$ 119,058,983</u></u>

The internal service funds used by management to charge the costs of certain services to individual funds as reported on the Statement of Net Assets as Governmental Activities differs from the balance reported on the Governmental Fund Balance Sheet as follows:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Description</u>	<u>Amount</u>
Total net assets reported on the Statement of Net Assets	
Proprietary Funds Governmental Activities Internal Service Funds	\$ (690,624)
Eliminate employer contributions receivable	(388,052)
Eliminate interfund loans payable	<u>578,593</u>
Total net assets reported for the internal service funds on the Statement of Net Assets as Governmental Activities	<u>\$ (500,083)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

<u>Description</u>	<u>Amount</u>
Net change in fund balances - total governmental funds in the statement of revenues, expenditures and changes in fund balances	\$ (31,913,184)
Governmental funds report capital outlays as expenditures while the statement of activities has these allocated over their estimated useful lives and reported as depreciation expense:	
Additions in capital assets	18,269,454
Depreciation expense	(7,842,330)
The net effect of various transactions involving miscellaneous capital assets is to increase net assets:	
Eliminate revenue recognized in fund statement for sale proceeds	(235,032)
Recognize loss on sale on government-wide statement	(48,156)
Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, where these amounts are deferred and amortized in the statement of activities:	
Eliminate debt principal payments from expenditures	6,766,422
Recognize expense related to accrued interest	(1,152,865)
Recognition of prior year accrued interest	207,857
Recognize amortization of deferred debits	(369,779)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:	
Bad debt expense due to change in allowance	(4,543,151)
Deferred revenue in the funds, but classified as tax revenue in the statement of activities	22,855,656
Change in net pension obligation	(7,928,045)
Change in estimated judgements payable	(300,000)
Change in compensated absences	19,013
Change in inventories	142,688
Change in prepaid expenses	203,974

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Description</u>	<u>Amount</u>
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>1,950,765</u>
Change in net assets of governmental activities in the government-wide statement of activities	<u>\$ (3,916,713)</u>
Net revenue (expense) of the internal service funds reported with the governmental activities, is determined as follows:	
<u>Description</u>	<u>Amount</u>
From the Statement of Revenues, Expenses and Other Changes in Net Assets reported change in net assets for the internal service funds	\$ 787,462
Eliminate employer contributions receivable, December 31	(388,052)
Eliminate employer contributions receivable, January 1	972,762
Eliminate interfund payable, December 31	<u>578,593</u>
Change in net assets as reported in the Statement of Activities as governmental activities	<u>\$ 1,950,765</u>

III. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis which is not consistent with accounting principles generally accepted in the United States. All annual appropriations lapse at fiscal year end.

On or before August 31, the City Controller submits to the Common Council a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the Common Council to obtain taxpayer comments. In September of each year, the Common Council through the passage of an ordinance approves the budget for the next year. Copies of the budget ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Department of Local Government Finance. The budget becomes legally enacted after the City Controller receives approval of the Department of Local Government Finance.

The primary government's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. The Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

Expenditures exceeded appropriations for the following funds, which required legally, approved budgets.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2004, expenditures exceeded budgeted appropriations in the following funds, by the amounts below:

Fund	Amount
General Fund	\$ 307,252
Nonmajor special revenue funds:	
Marquette Park	152,215
Gleason Golf Course	23,302
Solid Waste Recycling	36,861
Supplemental Adult Probation Services	8,908
Park Nonreverting	56,836
Fair Housing	8,109
Environmental Management	46,023
Total	<u>\$ 639,506</u>

These expenditures were funded by available cash balances in other funds. The excess of expenditures over appropriations resulted from the failure to obtain additional appropriation authority from the Common Council and, for some funds, the Department of Local Government Finance.

C. Deficit Fund Equity

At December 31, 2004, the following funds reported deficits in fund equity, which are violations of State statute:

Fund	Deficit
Governmental funds:	
General Fund	\$ 68,250,247
Protective Services Fund	410,194
Local Law Enforcement Block Grant	72,655
HOME Program	12,294
Solid Waste Recycling Project	75,151
Environmental Management	877
HIV Substance Abuse Prevention	1,665
Park Department	2,122,993
National Park Service	9,602
Community Development Block Grant	140,064
Genesis Convention Center II	1,281,084
Genesis Convention Center Operating	3,742
Lakefront Development	30,211
Social Services	16,140
Metro Center	26,575
Cumulative Capital Development	573,089
Casino Redevelopment	472,567

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Fund	Deficit
Broadway Avenue Beautification	76,123
Mainwater Project	102,561
Casino Capital	1,671,150
FEMA Grant GFD	230,967
Internal service fund: Self-Insurance	690,624

Fund equity deficits arose primarily from expenditures or expenses exceeding revenues due to the underestimate of current requirements; these deficits will be repaid from future revenues.

IV. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

The primary government's investments are categorized below to give an indication of the level of risk assumed by the primary government at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the primary government or its agent in the primary government's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the primary government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the primary government's name.

	Category			Reported	Fair
	1	2	3	Amount	Value
U.S. Government securities	\$ 1,451,718	\$ -	\$ -	\$ 1,451,718	\$ 1,451,718
Municipal bonds	750,000	-	-	750,000	750,000
Totals	<u>\$ 2,201,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,201,718</u>	<u>\$ 2,201,718</u>

B. Receivables

The government has no receivable accounts that have timing and credit characteristics different from typical accounts receivable for the governmental activities. See note V. G. for information regarding loan receivables.

The business-type activity (Sanitary District) won the litigation with the City of Lake Station regarding billing procedures and amounts billed. Settlement has not yet occurred. As of December 31, 2004, the City of Lake Station, based upon amounts billed by the District, has an outstanding accounts receivable balance for user fees of \$6,084,554. This amount is included in the accounts receivable balance reported for the District. In addition, the District has billed the City of Lake Station for capital costs in the amount of \$533,156, which has not been paid. This amount has not been included as an intergovernmental receivable since it is not known if it will be collected.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

The Sanitary District bills the City of Gary user fees for the Wastewater Utility. The amount billed and reflected in accounts receivable in the business-type activity is \$396,957. This same amount was paid to the City as payment in lieu of taxes; then, in 2005, the City will be returning the money to settle their user fees accounts receivable balance.

C. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Prior Period Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 9,978,559	\$ -	\$ 1,652,998	\$ 272,520	\$ 11,359,037
Construction in progress	1,502,045	1,672,414	3,539,315	1,502,045	5,211,729
Total capital assets, not being depreciated	11,480,604	1,672,414	5,192,313	1,774,565	16,570,766
Capital assets, being depreciated:					
Buildings	141,884,498	-	2,486,401	-	144,370,899
Improvements other than buildings	9,823,518	-	1,457,143	-	11,280,661
Machinery and equipment	37,743,440	(2,273,388)	2,325,455	-	37,795,507
Roads being depreciated	117,306,271	-	6,808,142	10,668	124,103,745
Totals	306,757,727	(2,273,388)	13,077,141	10,668	317,550,812
Less accumulated depreciation for:					
Buildings	28,060,104	1,058,189	2,883,194	-	32,001,487
Improvements other than buildings	4,842,417	-	497,790	-	5,340,207
Machinery and equipment	25,427,801	(2,190,697)	3,104,252	-	26,341,356
Roads being depreciated	65,213,321	-	1,357,094	-	66,570,415
Totals	123,543,643	(1,132,508)	7,842,330	-	130,253,465
Total capital assets, being depreciated, net	183,214,084	(1,140,880)	5,234,811	10,668	187,297,347
Total governmental activity capital assets, net	<u>\$ 194,694,688</u>	<u>\$ 531,534</u>	<u>\$ 10,427,124</u>	<u>\$ 1,785,233</u>	<u>\$ 203,868,113</u>
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 453,204	\$ -	\$ -	\$ -	\$ 453,204
Construction in progress	13,101,783	(554,766)	7,753,235	17,900,859	2,399,393
Total capital assets, not being depreciated	13,554,987	(554,766)	7,753,235	17,900,859	2,852,597
Capital assets, being depreciated:					
Buildings and improvements	90,753,187	-	9,445,760	-	100,198,947
Transmission and lines	180,768,519	-	5,963,156	1,794,374	184,937,301
Machinery and equipment	44,118,783	-	3,338,063	535,350	46,921,496
Totals	315,640,489	-	18,746,979	2,329,724	332,057,744

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Prior Period Adjustments</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:					
Buildings and improvements	64,123,715	-	1,436,523	-	65,560,238
Transmission and lines	87,329,809	-	1,509,852	1,794,374	87,045,287
Machinery and equipment	<u>25,788,076</u>	<u>-</u>	<u>2,940,895</u>	<u>524,267</u>	<u>28,204,704</u>
Totals	<u>177,241,600</u>	<u>-</u>	<u>5,887,270</u>	<u>2,318,641</u>	<u>180,810,229</u>
Total capital assets, being depreciated, net	<u>138,398,889</u>	<u>-</u>	<u>12,859,709</u>	<u>11,083</u>	<u>151,247,515</u>
Total business-type activity capital assets, net	<u>\$ 151,953,876</u>	<u>\$ (554,766)</u>	<u>\$ 20,612,944</u>	<u>\$ 17,911,942</u>	<u>\$ 154,100,112</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 2,720,840
Public safety	2,557,083
Public works, including depreciation of general infrastructure assets	1,438,496
Health and welfare	43,438
Culture and recreation	1,055,531
Community development	<u>26,942</u>
Total depreciation expense - governmental activities	<u>\$ 7,842,330</u>
Business-type activities:	
Sanitary District	<u>\$ 5,887,270</u>

D. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2004</u>	<u>Committed</u>
Governmental activities:			
Marina Access Road	\$ 35,439,419	\$ 3,663,979	\$ 31,775,440
Duneland Project	2,013,213	1,280,248	732,965
Water Tap Project	<u>670,996</u>	<u>267,502</u>	<u>403,494</u>
Totals	<u>\$ 38,123,628</u>	<u>\$ 5,211,729</u>	<u>\$ 32,911,899</u>

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Project	Total Project Authorized	Expended to December 31, 2004	Committed
Business-type activity:			
Black Oak Section 8 Phase II	\$ 135,000	\$ 65,895	\$ 69,105
Sludge Thickening	634,000	387,860	246,140
South Grant Street Drain Project	825,000	715,000	110,000
Central Area Relief Interceptor Sewers	973,133	232,008	741,125
HOPE VI Duneland Village Drainage	800,000	369,716	430,284
Drainage Infrastructure Program	600,000	600,000	-
Area Flow Modification - 32nd Alley 1 East	114,444	28,914	85,530
Totals	<u>\$ 4,081,577</u>	<u>\$ 2,399,393</u>	<u>\$ 1,682,184</u>

E. Interfund Balances and Activity

1. Interfund Receivables and Payables – Interfund Loans

The composition of interfund balances as of December 31, 2004, is as follows:

Due To	Due From			
	General Fund	Major Fund	Nonmajor Governmental	Total
General Fund	\$ -	\$ -	\$ 905,000	\$ 905,000
Major Fund	11,003,231	-	-	11,003,231
Nonmajor Governmental	4,274,478	420,000	292,000	4,986,478
Business-type funds	5,000,000	-	-	5,000,000
Fiduciary funds	3,141,000	-	-	3,141,000
Totals	<u>\$ 23,418,709</u>	<u>\$ 420,000</u>	<u>\$ 1,197,000</u>	<u>\$ 25,035,709</u>

Interfund balances resulted from the time lag between the dates that (1) Interfund loans are repaid, (2) Interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

2. Interfund Receivable and Payables – Cash Overdrafts

The composition of interfund balances for cash overdrafts as December 31, 2004, is as follows:

Due To	Due From				
	General Fund	Major Funds	Internal Service	Fiduciary Funds	Total
Nonmajor Governmental	<u>\$ 877,857</u>	<u>\$ 394,243</u>	<u>\$ 578,593</u>	<u>\$ 128,007</u>	<u>\$ 1,978,700</u>

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

3. Interfund Transfers

Interfund transfers at December 31, 2004, were as follows:

Transfer From	Transfer To				Total
	General Fund	Major Fund	Nonmajor Governmental	Fiduciary Funds	
General Fund	\$ -	\$ -	\$ 163,800	\$ -	\$ 163,800
Major Fund	8,000,000	-	12,986,310	-	20,986,310
Nonmajor Governmental	575,775	2,655,027	1,120,068	-	4,350,870
Business-type funds	1,193,999	-	-	-	1,193,999
Internal service funds	-	-	201	-	201
Fiduciary funds	1,066,793	-	-	1,352,007	2,418,800
Totals	<u>\$ 10,836,567</u>	<u>\$ 2,655,027</u>	<u>\$ 14,270,379</u>	<u>\$ 1,352,007</u>	<u>\$ 29,113,980</u>

The primary government typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the gaming revenues fund to the debt service fund for current-year debt service requirements. Additionally, due to the problems encountered with reassessment as discussed in note V. D., the City did not receive all property tax distributions and additional operating transfers were necessary.

4. Interfund Receivable and Payables – Government Wide Statement

The composition of interfund balances as of December 31, 2004, on the government-wide statement, is as follows:

Due To	Due From		Total
	General Fund	Fiduciary Funds	
Nonmajor Governmental	\$ -	\$ 128,007	\$ 128,007
Fiduciary funds	3,141,000	-	3,141,000
Totals	<u>\$ 3,141,000</u>	<u>\$ 128,007</u>	<u>\$ 3,269,007</u>

These receivables and payables can not be eliminated on the government-wide statement as they are composed of activity between the governmental funds and nongovernmental funds that are not presented on the government-wide statements.

F. Leases

1. Operating Leases

The primary government has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for a parking lot. Rental expenditures for this lease was \$169,800. The following is a schedule by years of future minimum rental payments as of December 31, 2004:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

2005	\$ 169,800
2006	169,800
2007	169,800
2008	169,800
2009	169,800
2010-2013	<u>594,300</u>

Total	<u>\$ 1,443,300</u>
-------	---------------------

The business-type activity has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for office space and office equipment. Rental expenditures for these leases were \$15,750 and \$24,667, respectively. The following is a schedule by years of future minimum rental payments as of December 31, 2004:

2005	\$ 45,667
2006	36,917
2007	4,224
2008	<u>4,995</u>

Total	<u>\$ 91,803</u>
-------	------------------

2. Capital Leases

The government has entered into various capital leases for machinery and equipment. Future minimum lease payments and present values of the net minimum lease payments under these capital leases as of December 31, 2004, are as follows

2005	\$ 1,941,483
2006	1,045,862
2007	<u>150,243</u>
Total minimum lease payments	3,137,588
Less amount representing interest	<u>103,930</u>
Present value of net minimum lease payments	<u>\$ 3,033,658</u>

Assets acquired through capital leases still in effect are as follows:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 5,649,017
Less: accumulated depreciation	<u>1,422,642</u>
Total	<u>\$ 4,226,375</u>

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

G. Short-Term Liabilities

Tax Anticipation Notes

The government issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its General Fund, and nonmajor funds, Genesis Convention Center II and the Park and Recreation Fund. These notes are necessary due to the delay in property tax reassessments, see note V. D. for additional information.

Short-term debt activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Issued/ Draws</u>	<u>Redeemed Repayments</u>	<u>Ending Balance</u>
Tax anticipation notes	\$ 18,065,396	\$ 55,362,193	\$ 28,804,149	\$ 44,623,440

H. Long-Term Liabilities

1. General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the primary government. General obligation bonds currently outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities:		
2003 Refunding general obligation bonds -		
Gary Sanitary District improvement projects	2.5% to 5.0%	\$ 10,710,000

Unamortized Amounts of Bonds

General Obligation bonds at year end include the following amounts of unamortized bond premium:

	<u>Balance at December 31</u>	<u>Add: Unamortized Premium</u>	<u>Deduct: Unamortized Deferral of Loss on Refunding</u>	<u>General Obligation Bonds</u>
2003 General obligation bonds	\$ 10,710,000	\$ 289,317	\$ (697,559)	\$ 10,301,758

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Business-Type Activities	
	Principal	Interest
2005	\$ 1,055,000	\$ 403,988
2006	1,075,000	374,675
2007	1,105,000	339,212
2008	1,140,000	297,075
2009	1,180,000	255,100
2010-2013	<u>5,155,000</u>	<u>501,713</u>
Totals	<u>\$ 10,710,000</u>	<u>\$ 2,171,763</u>

2. Revenue Bonds

The primary government issues bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

Purpose	Interest Rates	Amount
Governmental activities:		
2001 A Redevelopment bonds - public safety facility and lakefront development	Variable *	\$ 5,720,000
2001 A Redevelopment bonds - baseball stadium	Variable *	1,500,000
2002 A Redevelopment bonds - baseball stadium	Variable *	11,845,000
2004 A Redevelopment Authority bonds	Variable *	131,606
2004 B Redevelopment Authority bonds	Variable *	372,924
Gary Building Corporation - Sears building renovation	8.25%	<u>4,185,000</u>
Total		<u>\$ 23,754,530</u>

\*Variable interest rate is computed weekly, as determined by the remarketing agent (taking into consideration prevailing financial market conditions). The interest rate can not exceed a maximum of 12%.

The 2004 Redevelopment Authority Bonds were partially issued. The portion issued in 2004 was used to pay issuance costs. The 2001 A and B and the 2002 A Redevelopment Authority bonds will be refunded in 2005 and 2006. See subsequent event note V. D. for more information.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Governmental Activities	
	Principal	Interest *
2005	\$ 3,603,911	\$ 634,995
2006	3,634,000	817,951
2007	3,679,000	632,947
2008	3,724,000	474,335
2009	3,774,000	311,804
2010-2011	5,339,619	151,994
Totals	<u>\$ 23,754,530</u>	<u>\$ 3,024,026</u>

\*The interest shown includes estimated interest for the variable rate revenue bonds using the interest rate in effect as of December 31, 2004.

3. Loans Payable

The Gary taxing district received a loan of \$9,097,118 for property tax relief from the State of Indiana as part of its Circuit Breaker Program. The proceeds were advanced from the Property Tax Replacement Fund. The entire amount of the loan is to be repaid from the City's gaming revenues. The loan agreement outlined the repayment schedule for the loan commencing in July 2005 and continuing quarterly through April 2010, at an interest rate of 2.95%. Annual debt service requirements to maturity for the loans, including interest of \$864,598 are as follows in the table below:

The government's business-type activity has entered into two state revolving fund loans. Not all funds have been drawn to date for the second loan. The second loan was initiated in 2001, authorized \$25,000,000. \$13,767,878 has been drawn as of December 31, 2004. (\$11,233,132 has not been drawn). The interest rate on the second loan is not stated until all funds have been drawn. Tentative annual debt service requirements to maturity for the loans, (based upon all funds authorized being borrowed on the second issue with a zero rate of interest) including interest of \$1,611,352 are as follows:

Year Ended December 31	Governmental Activities	Business-type Activities
2005	\$ 996,172	\$ 2,117,489
2006	1,992,344	2,146,849
2007	1,992,344	2,170,909
2008	1,992,343	2,199,852
2009	1,992,342	2,233,940
2010-2014	996,171	10,544,540
2015-2019	-	477,868
Totals	<u>\$ 9,961,716</u>	<u>\$ 21,891,447</u>

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

4. Landfill Closure and Post-Closure Care Costs

The government is required by state and federal laws and regulations to make contributions to a trust to finance closure and post-closure care. The \$1,713,671 reported as landfill closure and postclosure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of all the estimated capacity of the landfill. See note V. J. for additional information.

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 2,459,914	\$ -	\$ 19,013	\$ 2,440,901	\$ -
Revenue bonds	27,815,000	504,530	4,565,000	23,754,530	3,603,911
Loans payable	400,000	9,097,118	400,000	9,097,118	729,996
Capital leases	4,835,081	-	1,801,423	3,033,658	1,863,306
Estimated claims and judgments	450,000	-	300,000	150,000	-
Landfill closure and post-closure care costs	1,713,671	-	-	1,713,671	-
Net pension obligation	<u>50,584,378</u>	<u>7,928,045</u>	<u>-</u>	<u>58,512,423</u>	<u>-</u>
Total governmental activities Long-term liabilities	<u>\$ 88,258,044</u>	<u>\$ 17,529,693</u>	<u>\$ 7,085,436</u>	<u>\$ 98,702,301</u>	<u>\$ 6,197,213</u>
Business-type activities:					
General obligation bonds	\$ 11,910,000	\$ -	\$ 1,200,000	\$ 10,710,000	\$ 1,055,000
loans payable	<u>18,104,043</u>	<u>3,910,052</u>	<u>1,734,000</u>	<u>20,280,095</u>	<u>1,795,000</u>
Total business-type activities long-term liabilities	<u>\$ 30,014,043</u>	<u>\$ 3,910,052</u>	<u>\$ 2,934,000</u>	<u>\$ 30,990,095</u>	<u>\$ 2,850,000</u>

Compensated absences for governmental activities typically have been liquidated from the general fund. Claims and judgments typically have been liquidated from the general fund.

I. Restricted Net Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	<u>Business-type Activities</u>
Debt service	\$ 5,609,094
Capital projects/improvements	<u>12,095,875</u>
Total restricted net assets	<u>\$ 17,704,969</u>

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

J. Restatements and Reclassifications

For the year ended December 31, 2004, certain changes have been made to the financial statements to more appropriately reflect financial activity of the primary government. The following schedule presents a summary of restated beginning balances by fund type. The fund reclassification represents the Empowerment Zone funds that were included as special revenue funds in the prior report. These items are now reported as agency funds that were determined to be funds of the Empowerment Zone, not the City. New fund represents the inclusion of an existing fund (Economic Development Trust fund, held by a fiscal agent) which was not presented in the prior report. The prior period adjustment to the net assets in the governmental funds represents adjustment to accumulated depreciation made by management. Prior period adjustments in the business-type activities represent reclassification of additions to construction work in progress for two projects in prior years that have been determined by management to be expense of the prior period and one project that was expensed in the prior period and current management has determined that this project should have been capitalized.

Fund Type	Balance as Reported December 31, 2003	Fund Reclassification	New Fund	Prior Period Adjustments	Balance as Restated January 1, 2004
Fund balances:					
Primary government:					
Governmental funds	\$ (14,879,302)	\$ (4,090,681)	\$ 1,004,164	\$ -	\$ (17,965,819)
Fiduciary fund:					
Agency (Trust Payable)	1,318,850	4,090,681	-	-	5,409,531
Net Assets:					
Primary government:					
Governmental funds	126,593,747	(4,090,681)	1,004,164	(531,534)	122,975,696
Business-type activities:					
Proprietary	170,845,793	-	-	(554,766)	170,291,027

V. Other Information

A. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Group Health Insurance

The government (except the Sanitary District) has chosen to establish a risk financing fund for risks associated with employee health claims. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

excess policy through commercial insurance covers individual claims in excess of \$125,000 and an aggregate of \$1,000,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. A premium is charged to each fund that accounts for employee payroll, based upon the percentage of each fund's current year payroll as it relates to total payroll. These premiums are reported as quasi-external inter-fund transactions. The total charge allocated to each of the funds is calculated using trends in actual claims experience. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay outs and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2004</u>	<u>2003</u>
Unpaid claims, beginning of fiscal year	\$ 1,683,636	\$ 1,174,048
Incurred claims and changes in estimates	8,776,021	6,675,361
Claim payments	<u>9,856,545</u>	<u>6,165,773</u>
Unpaid claims, end of fiscal year	<u>\$ 603,112</u>	<u>\$ 1,683,636</u>

Worker's Compensation and Unemployment Insurance

The government has chosen to establish a risk financing fund for risks associated with employee workmen's compensation and unemployment. The risk financing fund is accounted for in the Unemployment/Workmen's Compensation Fund, an internal service fund, where assets are set aside for claim settlements. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. A premium is charged to each fund that accounts for employee payroll, based upon the percentage of each fund's current year payroll as it relates to total payroll. These premiums are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay outs and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

	<u>2004</u>	<u>2003</u>
Unpaid claims, beginning of fiscal year	\$ 151,027	\$ 68,596
Incurred claims and changes in estimates	927,688	829,472
Claim payments	<u>962,609</u>	<u>747,041</u>
Unpaid claims, end of fiscal year	<u>\$ 116,106</u>	<u>\$ 151,027</u>

Vehicle and Liability Insurance

The government pays for all vehicle and liability claims from the General Fund and the Gaming Revenues Fund. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the balance of claim liabilities, for the General Fund, during the past two years are as follows:

	<u>2004</u>	<u>2003</u>
Unpaid claims, beginning of fiscal year	\$ 377,671	\$ 517,604
Incurred claims and changes in estimates	1,873,848	866,217
Claim payments	<u>1,848,328</u>	<u>1,006,150</u>
Unpaid claims, end of fiscal year	<u>\$ 403,191</u>	<u>\$ 377,671</u>

Changes in the balance of claim liabilities, for the Gaming Revenues Fund, during the past two years are as follows:

	<u>2004</u>	<u>2003</u>
Unpaid claims, beginning of fiscal year	\$ -	\$ -
Incurred claims and changes in estimates	771,700	-
Claim payments	<u>771,700</u>	<u>-</u>
Unpaid claims, end of fiscal year	<u>\$ -</u>	<u>\$ -</u>

**B. Related Party Transactions**

During the period in which financial statements are presented, the primary government had material transactions with Mr. Otho Lyles, President of the Board of Sanitary Commissioners (GSD), a department of the City. Mr. Lyles is an owner in the North Lake Video Company, the North Lake Excavating and Demolition Company and the North Lake Construction, LLC. In 2004, the City paid these companies \$4,625, \$15,000, and \$175,539, respectively, for videography, and demolition and construction of various projects. On July 12, 2004, Mr. Lyles resigned his position.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

C. Holding Corporation

The government has entered into a capital lease with the Gary Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the government. As discussed in note I. A., the lessor has been determined to be a blended component unit of the government.

The Sears building facility under the lease is included in the capital assets of the government. Lease payments during the year totaled \$736,500. Since the lease agreement is a funding mechanism for the revenue bonds, and since the Gary Building Corporation is a blended component unit of the government, only the debt of the revenue bonds is reported, so as to not duplicate the debt.

D. Subsequent Events

Property Taxes

Property tax rates and levies for 2003 payable 2004 were not established by February 15, 2004, as required by statute, due to the delay in the completion of the 2003 reassessment of Lake County. The final tax bills that were payable in 2003 were sent out in June 2004. Tax bills that were payable in 2004 were mailed to Lake County residents in March 2005. They are due in two installments on April 27, 2005, and June 23, 2005. The County Auditor has set dates for settlement and distribution of these monies in June 2005 and August 2005. This resulted in reduced tax revenues for the City in 2004.

In addition, property tax rates and levies for 2004 payable 2005 were not established by February 15, 2005, as required by statute, due to the delay in reassessment. County officials are hopeful that the first installment of 2004 payable 2005 will be billed in 2005.

Refunding Bonds

On December 17, 2004, the Redevelopment Authority (Authority) issued the Taxable Lease Rental Revenue Refunding Bonds, Series 2004 A, \$5,851,606.29 and Series 2004B, \$11,517,923.89. These bonds are to refinance the 2001A, 2001B, and 2002A Redevelopment Commission Bonds. The Authority is a blended component unit of the City. The City (Redevelopment Commission) entered into a lease agreement with the Authority to fund the repayment of the bonds. However, unlike most refunding issues, the bank (Bank One) purchased the new bonds and the proceeds are not actually released at the time of issuance. In 2004, the only proceeds spent were for bond issuance costs of \$504,530. In March 2005, the proceeds will be released to refund the 2001A and 2001B bonds. In February 2006, the proceeds will be issued to refund the balance of the 2002A bonds. Principal and interest payments are continuing on the 2002A bonds until 2006.

Potential Loss on Loan Receivable

As of December 31, 2004, the Empowerment Zone filed suit against the personal guarantors of four Empowerment Zone revolving loans receivable that has become delinquent. The debtor companies have filed bankruptcy and the Empowerment Zone is pursuing collection from the personal guarantors. The Empowerment Zone could experience a potential loss of \$530,000. See note V. G. for additional information on revolving loan receivables.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Tax Anticipation Warrants

In January 2005, the City issued tax anticipation warrants totaling \$23,322,000. \$22,000,000 was for the General Fund, \$688,000 for the Park and Recreation Fund, and \$634,000 for the Genesis Center Fund. Repayment of these amounts is due by June 30, 2005, at an interest rate of 2.75%. These warrants were repaid in June with another issuance of tax anticipation warrants in May 2005 for the same \$23,322,000 at 3.50% interest due to be repaid by December 31, 2005.

E. Contingent Liabilities

The government has been named in several lawsuits. The corporation counsel estimates that the City's potential loss on all claims, which can be estimated, should not exceed \$150,000. These are recorded as estimated claims and judgments payable.

F. Conduit Debt Obligation

From time to time, the primary government has issued Special Facility Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the primary government, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2004, there were seven series of Special Facility Revenue Bonds outstanding with an aggregate principal amount payable of \$50,285,000.

G. Loans Receivable

The City of Gary Redevelopment Department loans money to local businesses and individuals. The funding for these loans comes from grants from the U.S. Department of Housing and Urban Development. The loans are accounted for in the Community Development Block Grant Fund, the Empowerment Zone Revolving Loan Fund, the Empowerment Zone Micro Loan Fund, and the Empowerment Zone Small Business Association Micro Loan Fund. At December 31, 2004, outstanding loans were as follows:

Fund	Amount
Agency funds:	
Empowerment Zone Revolving Loan Fund	\$ 4,239,290
Empowerment Zone Micro Loan Fund	2,187,642
Empowerment Zone SBA Micro Loan Fund	<u>27,000</u>
Total agency funds	<u>6,453,932</u>
Governmental fund:	
Community Development Block Grant Fund	<u>13,750</u>
Total loans receivable	<u><u>\$ 6,467,682</u></u>

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

H. Postemployment Benefits

In addition to the pension benefits described below, the government provides postemployment health benefits, as authorized by IC 5-10-8, to all employees who retire from the government on or after attaining age fifty-five with at least thirty years of service. Currently, ninety-four retirees meet these eligibility requirements. The government and retirees provide 75% and 25%, respectively, of these postemployment benefits. Expenditures for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2004, expenditures of \$207,366 were recognized for postemployment benefits.

I. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The primary government contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the primary government authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the government and the business-type activity is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the government and is presented in the governmental activities of the financial statements and is not presented as a liability of the proprietary funds.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

b. 1925 Police Officers' Pension Plan

Plan Description

The primary government contributes to the 1925 Police Officers' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The primary government's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the primary government results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The primary government contributes to the 1937 Firefighters' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 873,234	\$ 9,424,900	\$ 8,463,500
Interest on net pension obligation	72,347	1,758,000	1,589,100
Adjustment to annual required contribution	(82,445)	(2,932,900)	(2,651,200)
Annual pension cost	863,136	8,250,000	7,401,400
Contributions made	577,888	4,998,760	3,009,863
Increase in net pension obligation	285,248	3,251,240	4,391,537
Net pension obligation, beginning of year	997,884	26,043,829	23,542,685
Net pension obligation, end of year	<u>\$ 1,283,132</u>	<u>\$ 29,295,069</u>	<u>\$ 27,934,222</u>

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	2%	555%	523%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-04	01-01-04	01-01-04
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	40 years	40 years
Amortization period (from date)	07-01-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year Smoothed market

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-02	\$ 368,479	100%	\$ 329,413
	06-30-03	1,086,713	38%	997,884
	06-30-04	863,136	67%	1,283,132
1925 Police Officers' Pension Plan	12-31-01	7,934,700	64%	22,666,968
	12-31-02	7,778,500	57%	26,043,829
	12-31-03	7,743,100	65%	29,295,069
1937 Firefighters' Pension Plan	12-31-01	7,539,000	68%	20,479,549
	12-31-02	7,386,900	59%	23,542,665
	12-31-03	6,743,100	45%	27,934,222

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2004, was comprised of the following:

	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Retires and beneficiaries currently receiving benefits	246	257
Current active employees	44	40

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age fifty-five with twenty years of service. An employee with twenty years of service may leave service, but will not receive benefits until reaching age fifty-five. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

Public Employees' Retirement Fund  
Harrison Building, Room 800  
143 West Market Street  
Indianapolis, IN 46204  
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2004, 2003, and 2002, were \$4,789,641, \$4,777,886, and \$4,390,851, respectively, equal to the required contributions for each year.

J. Municipal Solid Waste Landfill Closure and Post-Closure Costs

State and federal laws and regulations require the government to place a final cover on its municipal landfill when it stops accepting solid waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the government reports a portion of these closure and post-closure care costs as an operating expenditure in each period based on landfill capacity used as of each balance sheet date. The \$1,713,671 reported as landfill closure and post-closure care liability at December 31, 2004, represents the cumulative amount reported to date based on the use of all of the estimated capacity of the landfill. The government has recognized all the estimated costs of closure and post-closure care since the landfill capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2004. The government closed the landfill on May 1, 1997. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The government is required by state and federal laws and regulations to make contributions to a trust to finance closure and post-closure care, to obtain a line of credit, obtain a bond in an amount sufficient to finance the estimated closure and post-closure care costs, obtain insurance, or fulfill the financial requirements set forth in 329 IAC 2-12. The government has chosen to make contributions to a trust. At December 31, 2004, investments of \$1,451,718 (\$1,451,718 market value) are held for these purposes. These are reported as restricted assets on the balance sheet. The government expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by future tax revenue.

K. Environmental Protection Agency Consent Decree

The United States District Court issued a Consent Decree initiated by the Environmental Protection Agency in 2002, whereby the Gary Sanitary District (a business-type activity) was required to accumulate funds for the Grand Calumet Sedimentation Fund. A limit will be placed on the costs the Sanitary District will have to incur for the study and remediation of river sediments. This limit was set at \$2,500,000. In addition a special administrator will be required to certify on January 31 of each year, whether or not the Sanitary District is complying with the terms of the Decree. As of December 31, 2004, the balance restricted for this purpose is \$2,998,023.

CITY OF GARY  
NOTES TO FINANCIAL STATEMENTS  
(Continued)

L. Privatized Operations

On April 10, 1998, the Sanitary District entered into an agreement with White River Environmental Partnership (WREP) for the operation, maintenance, and management of the Sanitary District's wastewater treatment and collection system, with an effective date of July 1, 1998. As part of the agreement, WREP agreed to pay the Sanitary District \$10,000,000 as an up front payment of savings to the Sanitary District resulting from this ten year contract. In accordance with the agreement, the Sanitary District pays WREP a base amount per year of \$9,500,000, which is adjusted annually for changes in the Consumer Price Index. Contractual services for 2004 were \$10,910,321. If the Sanitary District cancels the contract prior to its expiration, the Sanitary District would be liable for an early termination fee in an amount ranging from a high of \$9,000,000 to a low of \$1,000,000 if cancelled in the final year of the contract. The Sanitary District does not anticipate terminating the contract prior to its expiration in 2007.

In addition, in accordance with this agreement, the District, through a donation from WREP, has contributed \$150,000 to allow for a small business loan program. The WREP has contributed an additional \$150,000 as a loan guarantee. The loan program will be administered by the City of Gary Economic Development Corporation. Currently, no loans have been made.

CITY OF GARY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-02	\$ 23,263,355	\$ 23,166,739	\$ 96,616	100%	\$ 20,901,510	0%
07-01-03	22,872,649	21,241,797	1,630,852	108%	21,125,957	8%
07-01-04	22,737,466	22,448,183	289,283	101%	19,938,661	1%

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 2,637,842	\$ 78,840,700	\$ (76,202,858)	3%	\$ 1,887,200	(4,038%)
01-01-00	4,376,372	80,789,800	(76,413,428)	5%	1,828,200	(4,180%)
01-01-01	3,680,204	82,245,900	(78,565,696)	4%	1,706,000	(4,605%)
01-01-02	5,614,371	79,847,000	(74,232,629)	7%	1,662,500	(4,465%)
01-01-03	4,023,585	77,916,200	(73,892,615)	5%	2,091,400	(3,533%)
01-01-04	4,388,057	79,307,600	(74,919,543)	6%	1,605,800	(4,666%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-99	\$ 2,112,993	\$ 76,777,000	\$ (74,664,007)	3%	\$ 1,824,400	(4,093%)
01-01-00	3,796,243	76,898,800	(73,102,557)	5%	1,695,200	(4,312%)
01-01-01	2,994,863	77,733,900	(74,739,037)	4%	1,740,800	(4,293%)
01-01-02	5,614,371	75,448,900	(69,834,529)	7%	1,590,200	(4,392%)
01-01-03	3,273,035	68,127,700	(64,854,665)	5%	1,904,700	(3,405%)
01-01-04	1,662,060	70,580,700	(68,918,640)	2%	1,493,800	(4,614%)

CITY OF GARY  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF CONTRIBUTIONS FROM THE  
EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-98	\$ 8,826,000	0%	29%
12-31-99	7,883,700	24%	29%
12-31-00	8,276,900	12%	27%
12-31-01	8,659,400	0%	59%
12-31-02	8,699,000	12%	39%
12-31-03	9,424,900	28%	25%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-98	\$ 8,416,400	0%	30%
12-31-99	7,662,700	26%	31%
12-31-00	7,861,800	13%	29%
12-31-01	8,198,100	0%	62%
12-31-02	8,218,500	12%	40%
12-31-03	8,463,500	8%	27%

CITY OF GARY  
OTHER REPORTS

The report presented herein was prepared in addition to other official reports prepared for the individual city offices listed below:

Police Pension Fund  
Firefighters' Pension Fund  
Park Department  
Metro Center  
Police Department  
City Clerk  
Emergency Medical Services  
Genesis Convention Center  
Fire Department  
Empowerment Zone  
Common Council  
Controller  
Office of the Mayor  
Board of Public Works and Safety  
Gary Sanitary District

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF  
FEDERAL AWARDS



# STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

### Compliance

We have audited the compliance of the City of Gary (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2004. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in items 2004-2, 2004-3, 2004-4, and 2004-5, in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding reporting, matching, cash management, and allowability that are applicable to its Public Safety Partnership and Community Policing Grants (COPS). Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2004.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
(Continued)

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2004-2, 2004-3, 2004-4, and 2004-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-2, 2004-3, 2004-4, and 2004-5 to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 21, 2005

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2004

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education Child Nutrition Cluster Summer Food Service Program For Children	10.559	745-05	\$ 245,570
Total for federal grantor agency			245,570
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Direct Grant Minority Business Opportunity Committee	11.803	05-20-03003-01	104,974
Total for federal grantor agency			104,974
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant CDBG - Entitlement and (HUD Administered) Small Cities Cluster Community Development Block Grants/Entitlement Grants	14.218		
		B-00-MC-18-0005	53,933
		B-01-MC-18-0005	285,293
		B-02-MC-18-0005	526,688
		B-03-MC-18-0005	1,952,934
		B-04-MC-18-0005	1,367,134
Total for cluster			4,185,982
Direct Grant Emergency Shelter Grants Program	14.231		
		S-02-MC-18-0005	224
		S-03-MC-18-0005	13,281
		S-04-MC-18-0005	112,473
		45-03-09-0732	14,154
		45-05-09-0732-01	5,203
Total for program			145,335
Direct Grant Supportive Housing Program	14.235		
		IN36B201004	116,015
Direct Grant HOME Investment Partnerships Program	14.239		
		M-99-MC-18-203	5,950
		M-01-MC-18-203	116,269
		M-02-MC-18-203	53,652
		M-03-MC-18-203	46,259
		M-04-MC-18-203	114,768
Total for program			336,898
Direct Grant Empowerment Zone Program	14.244		
		EZ-99IN0004	4,074,198

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2004  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)</u>			
Direct Grant			
Fair Housing Assistance Program - State and Local	14.401	FF205K045012	98,836
Total for federal grantor agency			8,957,264
<u>U.S. DEPARTMENT OF INTERIOR - NATIONAL PARK SERVICE</u>			
Direct Grant			
Urban Park and Recreation Recovery Program	15.919	18-CTY-1730-01-01	5,780
Pass-Through Indiana Department of Natural Resources Coastal Program	15.630	CR0004	43,460
Total for federal grantor agency			49,240
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Byrne Formula Grant Program	16.579	Federal Forfeitures	93,124
Direct Grant			
Public Safety Partnership and Community Policing Grants	16.710		
COPS AHEAD and Universal Hiring		1995CCWX0508	415,673
COPS In School		2002SHWX0398	134,075
Pass-Through Indiana Counter-Terrorism and Security Council COPS Homeland Security Overtime Program (HSOP)		2003OMWX0067	18,218
Total for program			567,966
Pass-Through Indiana Criminal Justice Institute Juvenile Accountability Incentive Block Grants	16.523		
		02-JB-011	54,518
		03-JB-008	48,398
Total for program			102,916
Crime Victim Assistance	16.575		
		03VA077	17,420
		03VA078	11,301
		03VA080	48,414
		04VA083	35,041
		04VA084	25,085
		04VA086	26,798
Total for program			164,059
Violence Against Women Formula Grants	16.588	01VA170	9,000

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2004  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF JUSTICE (continued)</u>			
Pass-Through Partnership for a Drug Free Lake County, Inc. Drug Free Communities Support Program Grants	16.729	FY 2004	9,751
Total for federal grantor agency			946,816
<u>U.S. DEPARTMENT OF LABOR</u>			
Pass-Through Indiana Department of Workforce Development Welfare-to-Work Grants to States and Localities	17.253	Y-7204-9-00-81-60	247,022
Total for federal grantor agency			247,022
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	STP-N-501 (010)	166,119
Total for cluster			166,119
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety	20.600	154-AL-04-03-03-13	39,419
Safety Incentive Grants for Use of Seatbelts	20.604	OP-IN-3-03-07-05-26	2,924
Total for cluster			42,343
Pass-Through Indiana Department of Transportation Development and Promotion of Ports and Intermodal Transportation	20.801	45001201	205,131
Total for federal grantor agency			413,593
<u>U.S. EQUAL OPPORTUNITY COMMISSION</u>			
Direct Grant Employment Discrimination - State and Local Employment Practices Agency Contracts	30.002	3-FPSL-0239	55,400
Total for federal grantor agency			55,400
<u>U.S. SMALL BUSINESS ADMINISTRATION</u>			
Direct Grant Microloan Demonstration Program	59.046	7540894007	27,000
Total for federal grantor agency			27,000

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2004  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant			
Brownfield Pilots Cooperative Agreements	66.811	BP97539301 BT97589601	46,340 <u>62,435</u>
Total for program			<u>108,775</u>
Direct Grant			
Brownfield Assessment and Cleanup Cooperative Agreements	66.818	BF96530201	<u>31,109</u>
Pass-Through Indiana Department of Environmental Management Capitalization Grants for State Revolving Funds	66.458	CS-18225801	<u>2,114,194</u>
Beach Monitoring and Notification Program Implementation Grants	66.472	CU-975678-01	<u>65,988</u>
Total for federal grantor agency			<u>2,320,066</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Family and Social Services Administration Child Care Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	45-04-1A-0732	<u>52,300</u>
Total for cluster			<u>52,300</u>
Pass-Through Indiana Department of Health Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	TB 196-3	<u>44,788</u>
Pass-Through Purdue University Injury Prevention and Control Research and State and Community Based Programs	93.136	653-3910-25	<u>10,176</u>
Pass-Through Indiana Department of Health Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Prevention and Surveillance of Blood Lead Levels In Children	93.197	CLP-775-2	<u>30,316</u>
Immunization Grants	93.268	IP 196-12	<u>4,067</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	BPRS-A04-45G BPRS04-A-2 45G	18,049 <u>5,400</u>
Total for program			<u>23,449</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended December 31, 2004  
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>			
Pass-Through Indiana Family and Social Services Administration Social Services Block Grant	93.667	04-03-5A-0732 45-05-5A-0732-01	42,808 28,830
Total for program			71,638
Family Violence Prevention and Services/Grants for Battered Women Shelters	93.671	45-05-OT-0732-01	49,784
Pass-Through Indiana Department of Health Block Grants for Prevention and Treatment of Substance Abuse	93.959	04-PSUP-775-1 05-PSUP-775-1	32,401 53,107
Total for program			85,508
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	STD-196-4	154,116
Preventive Health and Health Services Block Grant	93.991	PHB 196-6	672
Maternal and Child Health Services Block Grant to the States	93.994	04-MCH 196-1 05-MCH 196-1	194,944 54,489
Total for program			249,433
Total for federal grantor agency			776,247
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant			
Assistance to Firefighters Grant Program	97.044	EMW-2002-FG-17342 EMW-2003-FG-18848	54,320 715,152
Total for program			769,472
Pass-Through Lake Area United Way Emergency Food and Shelter National Board Program	97.024	FY 2004	9,376
Total for federal grantor agency			778,848
Total federal awards expended			\$ 14,922,040

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Gary (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the primary government provided federal awards to subrecipients as follows for the year ended December 31, 2004:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants	14.218	\$ 188,868
Emergency Shelter Grants Program	14.231	91,980
Home Investment Partnerships Program	14.239	27,552
Empowerment Zones Program	14.244	633,206

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? yes

Reportable conditions identified that are not considered to be material weaknesses? no

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified? yes

Reportable conditions identified that are not considered to be material weaknesses? no

Type of auditor's report issued on compliance for major programs:

All programs were unqualified except for Public Safety Partnership and Community Policing Grants, (COPS) CFDA 16.710 which was qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
14.244	Empowerment Zones Program
16.710	Public Safety Partnership and Community Policing Grants
97.044	Assistance to Firefighters Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$447,661

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2004-1, BANK RECONCILEMENT AND CONDITION OF RECORDS

We compared a combined bank reconciliation of all banks and compared the adjusted bank balance to the total of all city funds. The cash and investment balance in the funds on the City's records exceeded the adjusted bank balance by \$5,241,988. After discussing this discrepancy with officials, it was decided that the officials would research and correct this difference. In May of 2005, officials corrected and posted \$5,148,307.63 of this difference. The 2004 financial statements reflect this correction.

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Problems noted were as follows:

1. Reconciling items are not corrected on a timely basis. Some adjustments were over two years old.
2. Investment activity was inaccurately recorded in the cash of the funds in the ledger.
3. A wire transfer out of one bank account and into a trust account was only posted as a receipt and not a disbursement.
4. The property tax distribution deposited into the bank was incorrectly posted to the funds.
5. Receipts can be back dated and the amount of money received changed, thus hindering the reconciliation process.
6. Transactions between bank accounts were not consistently reflected on individual bank reconciliations. The difference between due to and due from other banks, within all the city bank accounts, was \$1,746,761.
7. Bank reconciliations are performed by several staff members and an outside accounting firm. Coordination of work was not being reviewed by officials.

The record balance at the end of every month shall be reconciled with the bank balance. [IC 5-13-6-1] Thus, any errors may be discovered and adjusted monthly. This procedure will localize any errors within the month and will prevent the necessity of a long and tedious search to trace errors covering transactions over a long period of time and will serve to expedite audits by the State Board of Accounts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 4)

Circular A-133 Subpart C--§\_\_\_\_.300 Auditee responsibilities, states in part: "The auditee shall: (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that officials correct the errors noted above and implement controls which will address the areas of concern.

Section III – Federal Award Findings and Questioned Costs

FINDING 2004-2, FINANCIAL REPORTING

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Numbers: 2002-SH-WX-0398, 1995-CC-WX-0508

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Numbers: 2003-OM-WX-0067  
Pass-through Agency: Indiana Counter-Terrorism and Security Council

For the first three quarters of 2004, the chief of operations' records from the police department were the basis for reporting expenditures on the quarterly reports; however, the fourth quarter was based upon the ledgers maintained by the City of the grant funds. The records maintained by the chief of operations did not agree to the financial records maintained by the City for the various COPS grants. Based upon the prior audit report, amounts reported as expended could not be substantiated, and included amounts for officers who were not eligible to participate in the grant programs. Numerous deficiencies were reported in the prior audit report over financial reporting, matching, and allowable or undocumented costs. Officials were implementing procedures, and making corrections to records to ensure the deficiencies were rectified. A major part of this was making sure that amounts paid from the fund set up by the City to account for the federal expenditures for the various COPS programs matched the payroll records, which documents the officers who are eligible under the federal programs. This process was not completed until the last payroll of September 2004.

For all three programs, the third and fourth quarter reports were not filed timely. The third quarter reports were due by November 15, but were filed on December 3, 2004. The fourth quarter reports were due by February 15, but were not filed until March 1, 2005.

Financial Status Reports. All COPS grantees are required to submit quarterly Financial Status Reports (FSRs) using a Standard Form 269A (SF-269A). This report reflects the actual federal monies and unliquidated obligations incurred, local matching contributions, and the unobligated balance of federal funds.

FSRs must be submitted no later than forty-five days after the last day of each quarter as follows:

<u>Reporting Quarter</u>	<u>Due date</u>
January 1 to March 30	May 15
April 1 to June 30	August 14
July 1 to September 30	November 14
October 1 to December 1	February 14

This report requests information on total monies spent, the breakdown by Federal expenditure and local match, and unobligated amounts. All Financial Status Reports must be completed and sent to the COPS Office no later than forty-five days following each calendar quarter. Grantees who do not submit a SF-269A by the due date will be unable to drawdown funds. The payment systems contain an edit that checks for SF-269A delinquency and will reject a drawdown attempt if the report is not up to date. (Grant Monitoring Standards and Guidelines for Hiring and Redeployment Part V. COPS Compliance Definitions and Conditions)

Title 28 - Judicial Administration, Chapter I - Department of Justice, Part 66 - Uniform Administrative Requirements for Grants and Cooperative Agreement Section 66.20, Standards for financial management systems, states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to-

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
  - (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

When dollar amounts reported cannot be verified to official city records, and reports are not filed timely future federal awards can be jeopardized.

We recommended that officials file reports timely and that the information reported be verifiable to official city accounting records.

FINDING 2004-3, CASH MANAGEMENT

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Number: 2003-OM-WX-0067  
Pass-through Agency: Indiana Counter-Terrorism and Security Council

As stated in the prior report, the City requested a single cash advance for the COPS Homeland Security Grant in the amount of \$100,000. These funds were deposited on December 22, 2003. Reported federal expenditures for 2003 were \$4,769.36 and for 2004 were \$48,405.40. Thus, the total spent as of December 31, 2004, was \$53,174.76, which leaves an unexpended cash balance of \$46,825.24.

The City does not have a system for determining when funds are needed or for projecting cash flows.

The COPS grant owners manual stipulates that the period of cash on hand allowed is ten (10) days in advance. Also, interest earned on all advances of federal funds over \$250 per fiscal year is required to be paid to the U.S. Department of Health and Human Services.

Title 28 - Judicial Administration, Chapter 1 - Department of Justice, Part 66 - Uniform Administrative Requirement for Grants and Cooperative Agreements § 66.21 states: "(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205."

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

OMB Circular 102 (Paragraph 2. a.) states: "Agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and cooperative agreements and the recipient's need for the funds."

Failure to adhere to this requirement could cause the City to become ineligible to receive federal funds, or to have to repay federal funds or interest earned on those funds received in advance.

We recommended that officials only request funds as needed. A system should be established for determining need based upon projected or encumbered expenditures.

FINDING 2004-4, PAYROLL INTERNAL CONTROLS AND DOCUMENTATION

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Numbers: 2002-SH-WX-0398, 1995-CC-WX-0508

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Numbers: 2003-OM-WX-0067  
Pass-through Agency: Indiana Counter-Terrorism and Security Council

The City has established a system in which payroll expenses to be paid from a specific fund are automatically posted to that fund upon entering the payroll. In order to ensure only eligible employees are paid, department heads are provided with "Payroll Earnings Forecasts" (forecasts) from the payroll department. These forecasts show all employees to be paid from that fund and/or department, the hours to be worked, and the dollar amounts to be paid. Then, the department head is to review the forecast, compare it to the time sheets, make and document any corrections, and sign certifying whether or not it is correct. When signing, he or she is to indicate the amount being certified, and the date they are certifying the report. This is then to be returned to payroll for processing. Amounts paid based upon the corrected forecast are then to be posted to the appropriate fund and department.

We reviewed the forecasts for various periods for the various COPS grants and noted that time sheets supporting the forecasts do not always agree to the pay date indicated on the forecasts, and the forecasts are certified prior to the end of the payroll period. Additionally, amounts on the forecasts or corrected amounts were not always the amounts posted to the fund. The police department chief of operations maintains the police department copies of the forecasts, as well as the time sheets. The time sheets associated with each forecast are to be maintained with that forecast. The following provides some examples from the COPS Universal Hiring grant program (similar examples were noted with the other COPS grant programs):

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Based upon the Payroll Earnings Forecast							Per Time Sheet		Per Roster
Report Date	Pay Date	Amount	Date Certified	Amount Certified	Corrected Amount	Amount Posted to Ledger	Payroll Period	Number of	Number of Officers
								Missing Time Sheets	Included From Another Program
N/I	8-6	\$ 42,501.00	7-30	\$ 42,775.64	\$ 42,775.64	\$ 42,775.64	7-24 to 8-6	4	6
8-18	9-3	42,638.12	8-27	34,549.24	42,501.00	34,275.00	9-4 to 9-17	3	6
9-2	9-17	34,275.00	9-10	34,275.00	34,275.00	34,275.00	9-18 to 10-1	4	-
9-29	10-15	34,275.20	10-8	34,412.32	32,904.00	33,041.12	8-7 to 8-20	-	-
10-13	10-29	34,412.32	N/I	31,533.00	32,904.00	31,533.00	10-2 to 10-15	1	-
N/I	11-12	32,904.20	11-5	32,904.20	31,533.00	31,533.00	10-30 to 11-12	3	0

N/I – not indicated

For the missing time sheets, and the time sheets not corresponding to the pay dates, we reviewed other payroll forecasts for the documents, as well as making inquiries of police department personnel, but the sheets could not be located.

It was also noted that time sheets are being signed in advance of final work dates.

Title 28 - Judicial Administration, Chapter I - Department of Justice, Part 66 - Uniform Administrative Requirements for Grants and Cooperative Agreements § 66.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.
- (6) Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc."

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Failure to establish and maintain controls which support the financial activity could result in reporting federal expenditures which are inaccurate, or incomplete. Additionally, amounts not properly supported could be considered unallowable, resulting in questioned costs.

We recommended that officials review controls, and computerized transaction recording to ensure amounts are properly posted and documented.

FINDING 2004-5, LOCAL MATCH

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Numbers: 2002-SH-WX-0398, 1995-CC-WX-0508

Federal Agency: U.S. Department of Justice  
Federal Program: Public Safety Partnership and Community Policing Grants  
CFDA Number: 16.710  
Award Numbers: 2003-OM-WX-0067  
Pass-through Agency: Indiana Counter-Terrorism and Security Council

Local matching dollars are not transferred into the funds and accounts designated as the grant control funds. Instead, the City Controller has indicated in his corrective action plan, and it was verified in the review of the summary of prior audit findings, that the local matches would be paid directly from the General Fund. Based upon the summary of prior audit findings, the City indicated that some salary related expense would be paid from the General Fund, such as other compensation, health insurance, workers compensation, unemployment, and clothing allowance. We performed a review and determined that for the Universal Hiring Grant Program, all of those items are being paid from the general fund, except for the health insurance. For the Homeland Security Grant Program, all overtime salary related expenses are being paid from the grant fund. For the Cops in School Grant Program, all items indicated in the Summary of Prior Audit Findings are being paid from the General Fund.

We determined the total number of officers eligible to participate in two of the grants, based upon rosters provided by the City. Then, we calculated the officers' salary related expenses for the year. Next, using the information addressed in the first paragraph, we calculated the percentages of local matches to have been paid from the general fund, and determined that for the Cops in School Grant Program the salary related expenditures account for only 14.13% of the total eligible expenditures for 2004. Using the same procedure for the Universal Hiring Grant Program, but excluding the health insurance, the percentage of the local match would only have been 7.02%.

In accordance with the "Grant Monitoring Standards and Guidelines for Hiring and Redeployment" prepared by the U.S. Department of Justice Office of Community Oriented Policing Services (COPS), the following is addressed:

"For Hiring grant awards (AHEAD, FAST, UHP), the COPS grant will provide up to 75% of an entry-level salary and benefits package over three years with a maximum of \$75,000 per position. Grantees are responsible for at least 25% of the salary and fringe benefit package through the local match."

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

"An additional guideline to follow concerns the type and source of the match. The type of match must be a cash match and the source of funding may not be Federal unless specifically authorized by Federal statute. The funding for local match must be in addition to funds previously budgeted for law enforcement purposes and may not have come from other COPS grants or supplements. The grantee must be able to identify the source of their matching funds. Ideally, it is beneficial if a grantee proactively documents the specific source for and timing of the local match, such as a separate line item in the local budget."

It must be noted that we also calculated salaries and other benefits to have been eligible costs under the two programs, and to have been posted to the funds designated to account for the federal share of the costs, and found that those expenditures would exceed the amount of the federal awards. Thus, if records were properly maintained, the funds designed for the federally funded programs would be overdrawn by those amounts; therefore, the City would be paying the correct percentages of their local matches.

Title 28 - Judicial Administration, Chapter I - Department of Justice, Part 66 - Uniform Administrative Requirements for Grants and Cooperative Agreement Section 66.20, Standards for financial management systems, states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to-

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
- (2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Title 28 - Judicial Administration, Chapter I - Department of Justice, Part 66 - Uniform Administrative Requirements for Grants and Cooperative Agreement Section 66.24, Matching or cost sharing, states in part:

"(6) Records. Costs and third party in-kind contributions counting towards satisfying a cost sharing or matching requirement must be verifiable from the records of the grantees and subgrantee or cost-type contractors."

CITY OF GARY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
(Continued)

Failure to establish and maintain controls and records which adequately document local and federal shares of expenditures could result in amounts having to be repaid to the federal agency, or becoming ineligible to receive additional funding.

We recommended that rather than trying to split costs among funds, it would be best to pay all expenses from the appropriately designated fund, and transfer the local matching funds into the fund designed to account for all of the grant related expenses. In that manner, the local match can be easily identified, and the risk of overdrawing a fund, or not meeting the required local match is minimized. Additionally, federal monitoring reports can be prepared based upon the activity contained in one location.



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUD

Director of Finance

M. CELITA GREEN

Deputy Controller

### SUMMARY OF PRIOR AUDIT FINDINGS

#### FINDING NO. 2003-4 Financial Reporting

<b>Federal Agency:</b>	<b>U.S. Department of Labor</b>
<b>Federal Program:</b>	<b>Community Oriented Policing Services</b>
<b>CFDA Number:</b>	<b>16.710</b>
<b>Federal Award No.</b>	<b>2002-SH-WX-0398, 2003-OM-WX-0067, 1995- CCWX-0508 1996-CW-WX-830</b>
<b>Pass-Through Entity:</b>	<b>N/A</b>
<b>Auditee Contract Person:</b>	<b>Husain Mahmoud</b>
<b>Title of Contact Person:</b>	<b>Director of Finance</b>
<b>Phone Number:</b>	<b>219 881-1363</b>

#### COPS IN SCHOOL

#### COPS HOMELAND AND SECURITY OVERTIME PROGRAM

#### COPS UNIVERSAL HIRING PROGRAM

#### COPS MORE

Pursuant to the Corrective Action Plan, the City of Gary Department of Finance and Police Department has made preparation and plans to accurately report the fiscal activities involving all U.S. Department of Labor Community Oriented Policing Services grants as it relates to the fiscal activities and cost allocation through reorganization of administrative and fiscal responsibilities, which remains ongoing.. We have implemented the following:

- Prepared quarterly reports and submitted draw down requests as well as develop other means in identifying the different cost activities for tracking eligible police officers.
- Established Funds, Budgets, Payroll Transmittals for COPS in School, COPS Homeland Security Overtime Program, and Cops Universal Hiring Program.
- All salaries are paid from the respective funds, eliminated a need to reimburse the General Fund through transfer.

**In contrast, we are steadfast in continuing our efforts to maintain structure and accountability of the above grant funds through reorganization and internal controls.**

Signed

Date

3/9/05



**City Of Gary**  
**Department of Finance**

401 Broadway  
Gary, Indiana 46402  
(219) 881-1363 / Fax (219) 881-1340

December 16, 2004

**SCOTT L. KING**  
Mayor

**GERALDINE B. TOUSANT**  
Deputy Mayor

**HUSAIN G. MAHMOUD**  
Director of Finance

**M. CELITA GREEN**  
Deputy Controller

United States Department of Justice  
Community Oriented Policing Services  
Mr. Mike Banks, Grant Program Specialist  
Grants Administration Division  
1100 Vermont Avenue, NW, Floor 9  
Washington, DC 20530

Dear Mr. Banks:

The City of Gary is requesting a modification of its original COPS MORE budget, grant #1996-CM-WX-0830,

We did not foresee the need to purchase equipment when the budget was originally submitted. However, with the purchase of new police vehicles and the need for more efficient and expedient communications and services, we realized that computers installed in a number of police vehicles would fulfill this growing need. This equipment and software will connect the Fire Department and City Court to the Police Department. It will enable our officers to search for outstanding city and county warrants from the mobile units.

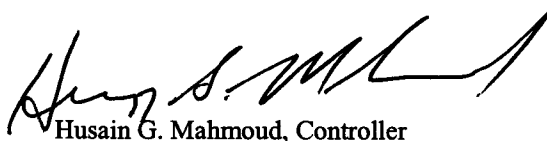
After speaking to the officials of the Police Department and reviewing the guidelines of the grant, we realized that the Police Department had completed the draw-down for the equipment that they wished to purchase, but had not yet completed the modification and other necessary notifications to complete the process. Due to shortfalls in the administration of the grant, as of June 2004, the financial reporting and accounting of the COPS grants was transferred to the Finance Department. The previous grant administrator is no longer with the City.

Therefore, we are submitting the attached request for modification of the COPS MORE Budget, and we are requesting an extension until March 2005 to make the purchase of equipment, if the modification is approved.

Thank you for your consideration and assistance in resolving this matter. Please contact me at (219) 881-1363 if you have questions. Grant #1996-CM-WX-0830,

Sincerely,

Garnett Watson, Chief of Police



Husain G. Mahmoud, Controller

Copy: Scott L. King, Mayor  
Jeff Kumorek, Deputy Chief  
M. Celita Green, Deputy Controller



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

HUSAIN G. MAHMOUD

Director of Finance

GERALDINE B. TOUSANT

Deputy Mayor

M. CELITA GREEN

Deputy Controller

### SUMMARY OF PRIOR AUDIT FINDINGS

#### FINDING NO. 2003-5 Financial Reporting-Grant Accounting & Maintenance

<b>Federal Agency:</b>	<b>U.S. Department of Labor</b>
<b>Federal Program:</b>	<b>Community Oriented Policing Services</b>
<b>CFDA Number:</b>	<b>16.710</b>
<b>Federal Award No.</b>	<b>2002-SH-WX-0398,2003-OM-WX-0067,1995- CCWX-0508</b>
<b>Pass-Through Entity:</b>	<b>N/A</b>
<b>Auditee Contract Person:</b>	<b>Husain Mahmoud</b>
<b>Title of Contact Person:</b>	<b>Director of Finance</b>
<b>Phone Number:</b>	<b>219 881-1363</b>

#### COPS IN SCHOOL

#### COPS HOMELAND AND SECURITY OVERTIME PROGRAM

#### COPS UNIVERSAL HIRING PROGRAM

Pursuant to the Corrective Action Plan, the City of Gary Department of Finance and Police Department has made preparation and plans to accurately report the fiscal activities involving all U.S. Department of Labor Community Oriented Policing Services grants as it relates to the fiscal activities and cost allocation through reorganization of administrative and fiscal responsibilities, which remains ongoing. The Department of Finance has retrieved all information regarding the accountability and allocation of the fiscal distribution of resources and has implemented the following:

- We have prepared quarterly reports and submitted draw down requests as well as develop other means in identifying the cost for tracking eligible police officers.
- Earning history and Timesheets reports are being reviewed to accurately compile data and timely submit quarterly reports to Grantor.
- Established Funds, Budgets, and Payroll Transmittals for COPS in School, COPS Homeland Security Overtime Program, and Cops Universal Hiring Program to charge expenses directly to the fund, as well as receipt reimbursements directly into the fund. Eliminating transfers for either.
- All salaries are paid from the respective funds, eliminated a need to reimburse the General Fund through transfers.

Signed

Date 3/9/05



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUD

Director of Finance

M. CELITA GREEN

Deputy Controller

### SUMMARY OF PRIOR AUDIT FINDINGS

#### FINDING NO. 2003-6 Matching – Percentage of Uses and Sources

<b>Federal Agency:</b>	U.S. Department of Labor
<b>Federal Program:</b>	Community Oriented Policing Services
<b>CFDA Number:</b>	16.710
<b>Federal Award No.</b>	2002-SH-WX-0398,2003-OM-WX-0067,1995- CCWX-0508 1996-CW-WX-830
<b>Pass-Through Entity:</b>	N/A
<b>Auditee Contract Person:</b>	Husain Mahmoud
<b>Title of Contact Person:</b>	Director of Finance
<b>Phone Number:</b>	219 881-1363

#### COPS UNIVERSAL HIRING PROGRAM

#### COPS HOMELAND AND SECURITY OVERTIME PROGRAM,

#### COPS IN SCHOOL & COPS MORE

Pursuant to the Corrective Action Plan, the City of Gary Department of Finance and Police Department has made preparation and plans to accurately report the fiscal activities involving all U.S. Department of Labor Community Oriented Policing Services grants as it relates to the fiscal activities and cost allocation through reorganization of administrative and fiscal responsibilities which remains ongoing.

The City of Gary has requested a financial hardship wavier from the above name entity being not able to meet the required match to the grant funding which is due to the lack of property tax revenue in lieu of the property reassessment of Northwest Indiana.

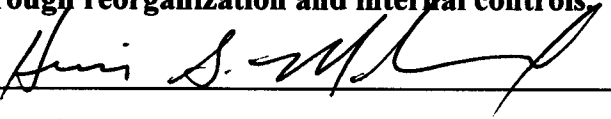
However, we have implemented the following:

- We have prepared quarterly reports and submitted draw down requests as well as develop other means in identifying the different cost activities for tracking eligible police officers.
- Established Funds, Budgets, Payroll Transmittals for COPS in School, COPS Homeland Security Overtime Program, and Cops Universal Hiring Program.
- Basic salaries are paid from the respective funds, which eliminate a need to reimburse the General Fund.
- Identified costs per officer to determine the cash matches have been met through budgeted line items in the General Fund. Some salary related expenses are charged to the General Funds, such as; other compensations, health insurance employee cost, workmen compensation,

unemployment, and clothing allowance.

**In contrast, we are steadfast in continuing our efforts to monitor the accountability of the above grant funds through reorganization and internal controls.**

Signed



Date

3/9/05



## City Of Gary

### Department of Finance

401 Broadway  
Gary, Indiana 46402  
(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING  
Mayor

GERALDINE B. TOUSANT  
Deputy Mayor

HUSAIN G. MAHMOUD  
Director of Finance

M. CELITA GREEN  
Deputy Controller

### SUMMARY OF PRIOR AUDIT FINDINGS

#### FINDING NO. 2003-7 Cash Management

<b>Federal Agency:</b>	<b>U.S. Department of Labor</b>
<b>Federal Program:</b>	<b>Community Oriented Policing Services</b>
<b>CFDA Number:</b>	<b>16.710</b>
<b>Federal Award No.</b>	<b>2003-OM-WX-0067</b>
<b>Pass-Through Entity:</b>	<b>N/A</b>
<b>Auditee Contract Person:</b>	<b>Husain Mahmoud</b>
<b>Title of Contact Person:</b>	<b>Director of Finance</b>
<b>Phone Number:</b>	<b>219 881-1363</b>

Pursuant to the Corrective Action Plan, the City of Gary Department of Finance and Police Department has made preparation and plans to accurately report the fiscal activities involving all U.S. Department of Labor Community Oriented Policing Services grants as it relates to the fiscal operation and cost allocation through reorganization of administrative and fiscal responsibilities.

During this process, the Department of Finance has retrieved all information regarding the fiscal activities of the grants in order to allocate and properly assign resources by grant funds with the collaboration of the Police Department personnel, we have established accurate reporting of personnel which is ongoing. Currently, this process has rendered the following:

- We have prepared quarterly reports and submitted draw down requests as well as develop other means in identifying the cost for tracking eligible police officers.
- Police officers timesheets has been separated in order to show the exact funds that should be charged

Earning history and timesheets reports are being reviewed to accurately compile data and timely submit quarterly reports to Grantor.

- All Funds, Budgets, and Payroll Transmittals have been established to charge expenses directly to the fund, as well as receipt reimbursements. Eliminating transfers for either.
- Basic salaries are paid from the respective funds, which eliminates a need to reimburse the General Fund through transfers.

Signed

Date 3/9/05



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUD

Director of Finance

M. CELITA GREEN

Deputy Controller

### SUMMARY OF PRIOR AUDIT FINDINGS

#### FINDING NO. 2003-8 Allowable Costs- Undocumented Questioned Costs

<b>Federal Agency:</b>	<b>U.S. Department of Labor</b>
<b>Federal Program:</b>	<b>Community Oriented Policing Services</b>
<b>CFDA Number:</b>	<b>16.710</b>
<b>Federal Award No.</b>	<b>2002-SH-WX-0398,2003-OM-WX-0067,1995- CCWX-0508,1996-CM- WX-0830</b>
<b>Pass-Through Entity:</b>	<b>N/A</b>
<b>Auditee Contract Person:</b>	<b>Husain Mahmoud</b>
<b>Title of Contact Person:</b>	<b>Director of Finance</b>
<b>Phone Number:</b>	<b>219 881-1363</b>

#### COPS IN SCHOOL

#### COPS HOMELAND AND SECURITY OVERTIME PROGRAM

#### COPS MORE

Pursuant to the Corrective Action Plan, the City of Gary Department of Finance and Police Department has made preparation and plans to accurately report the fiscal activities involving all U.S. Department of Labor Community Oriented Policing Services grants as it relates to the fiscal activities and cost allocation through reorganization of administrative and fiscal responsibilities which remains ongoing.

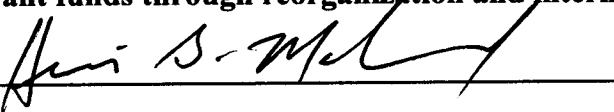
Currently, we have requested an extension and modification on the budget in order to correct transfer expenditures relating to the Cops Ahead and Cops More grants after further review , it was discovered that funds were charged incorrectly to the account.

However, we have implemented the following:

- We have prepared quarterly reports and submitted draw down requests as well as develop other means in identifying the different cost activities for tracking eligible police officers.
- Established Funds, Budgets, Payroll Transmittals for COPS in School, COPS Homeland Security Overtime Program, and Cops Universal Hiring Program.
- All salaries are paid from the respective funds, which eliminate a need to reimburse the General Fund through transfers, and Identified costs per officer to determine if cash matches have been met through budgeted line items in the General Fund.

**In contrast, we are steadfast in continuing our efforts to monitor the accountability of the above grant funds through reorganization and internal controls.**

Signed



Date

3/9/05



**City Of Gary**  
**Department of Finance**

401 Broadway  
Gary, Indiana 46402  
(219) 881-1363 / Fax (219) 881-1340

**HUSAIN G. MAHMOUD**  
Director of Finance

**M. CELITA GREEN**  
Deputy Controller

**SCOTT L. KING**  
Mayor  
  
**GERALDINE B. TOUSANT**  
Deputy Mayor


**SUMARY OF PRIOR AUDIT FINDINGS**

**FINDING NO. 2003-9 Period of Availabilty –CFDA 17.259**

<b>Federal Agency:</b>	<b>U.S. Department of Labor</b>
<b>Federal Program:</b>	<b>Workforce Investment Act</b>
<b>CFDA Number:</b>	<b>16.710</b>
<b>Pass-Through Entity:</b>	<b>Indiana Department of Workforce Development</b>
<b>Auditee Contract Person:</b>	<b>David Moskovice</b>
<b>Title of Contact Person:</b>	<b>CFO</b>
<b>Phone Number:</b>	<b>219 882-0033</b>

Pursuant to the Corrective Action Plan, the City of Gary has terminated their partnership with the Indiana Department of Workforce Development as of FY2003.

Any transactions, which appear in FY2004, are related to FY2003 reconciliation of expenditures. The account was close out in July of FY2004, and there were no further activities during the year.

Signed   
Date 3/30/05



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

HUSAIN G. MAHMOUD

Director of Finance

GERALDINE B. TOUSANT

Deputy Mayor

M. CELITA GREEN

Deputy Controller

### CORRECTIVE ACTION PLAN

#### Section II Financial Statement Findings

#### **FINDING NO. 2004-1 Bank Reconciliation and Condition of Records**

**Auditee Contract Person:** Husain Mahmoud  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363  
**Expected Completion Date:** June 30, 2005

#### **Corrective Action:**

In order to assure compliance to the audit findings during the course of this audit, and as stated in the audit response narrative, which reflects that in May of 2005, officials corrected and posted adjustments to the Audit Finding Report for FY 2004 financial statement shows corrections.

Therefore, as a result of FY 2004 mid year reorganization plan of personnel and combined services to designated departments, the City of Gary officials continues to oversee, coordinate, and follow-up on the fiscal responsibility to accurately report all fiscal transactions on city's books and related banking institution statements.

We have outlined the responsibility of the City's Accounting Staff members and the contractual accounting firm in order to coordinate the performance task, needed to justify all accounting transactions for period end balances. A single and combine monthly reconciliation on all bank accounts will be closely scrutinized each month to assure that all transactions have been identified, and transfers have been balanced to the City of Gary General Ledger. Transactions will be identified and verified including proper descriptions titles through research.

#### **Response to problems:**

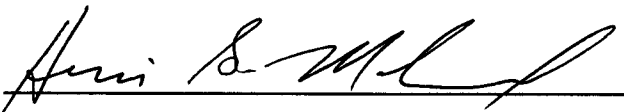
In response to the items noted as problems, the corrective actions is as follows:

1. We have instituted an interaction between operations and reconciliation in determining documented errors and unidentified transaction over a period of time in order to properly record deposits and disbursement at month end. Accounting staff member will work closely with the daily operations staff to resolve any questionable item not reconciled.

2. All investment activities will be reviewed at the end of each quarter to assure proper posting to the appropriate accounts.
3. An adjustment to record the wire transfer has been made to the correct account, and in the future will be reviewed in reference to the source documents for accuracy.
4. An adjustment to record the property tax distribution deposited has been made to the correct account.
5. As indicated from the examiner during the audit examination, 'the system has adequate audit trails as far as the posting of transactions'. The City of Gary has reviewed the financial accounting system receipt process, and has modified the system controls to disallow reuse of receipt numbers during the voiding process.

The City of Gary continues to assure compliance and accountability of funds. Our efforts remain ongoing since beginning reorganization of administrative and fiscal responsibilities since FY 2004.

**In contrast, we are steadfast in continuing to maintain structure of city appropriation and grant funds through internal controls.**

Signed 

Date 7/21/05



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

HUSAIN G. MAHMOUD

Director of Finance

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

M. CELITA GREEN

Deputy Controller

### CORRECTIVE ACTION PLAN

#### FINDING NO. 2004-2 Financial Reporting

**Federal Agency:** U.S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2002-SH-WX-0398, 2003-OM-WX-0067, 1995- CCWX-0508  
1996-CW-WX-830  
**Pass-Through Entity:** N/A

**Federal Agency:** U.S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council

**Auditee Contract Person:** Husain Mahmoud  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363  
**Expected Completion Date:** 07/01/05

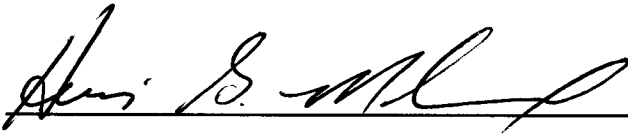
#### Corrective Action:

As the City of Gary continues to assure compliance and accountability of grants to the prior year audit findings, our efforts, which have, remain ongoing during the reorganization of administrative and fiscal responsibilities since FY 2004 continues the analyses of expenditures associated with the grant funds.

Due to the Department of Finance interaction into data conversion and comparison, we will assure more accurate tracking of eligible officers and officers that are in retention, from the timesheets and eligibility lists provided by the police department cost allocation. The reports will reflect a breakdown of all expenditures related to matches and unobligated amounts.

We will expedited the required timelines for proper filing of reports associated with all grants and collaborate resources to adequately maintain a schedule for this process. Our records will identify the source of the disbursement of funds provided for financial verification of the grant activities.

In contrast, the City of Gary will continue to improve its accountability of the above grant funds through reorganization and internal controls.

Signed 

Date 7/21/05



**City Of Gary**  
**Department of Finance**

401 Broadway  
Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUI

Director of Finance

M. CELITA GREEN

Deputy Controller

**CORRECTIVE ACTION PLAN**

**FINDING NO. 2004 -3 CASH MANAGEMENT**

**Federal Agency:** U. S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Award Number:** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council

**Auditee Contact Person:** Husain Mahmoud  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363  
**Expected Completion Date:** 12/31/05

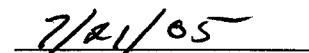
As stated in the prior corrective action plan, which remains ongoing, the COPS Homeland Security Grant was formerly maintained in all facets by the Police Department. A change has since been made where the quarterly reports, tracking, and drawdowns will be submitted and maintained by the Finance Department. The Police Department will continue to complete the narratives for these reports.

However, as this process continues, it will eliminate funds drawn in advance from accumulating interests over the allowable amounts during a fiscal period.

A system for tracking expenditures and relating them to individual officers has been established to obtain more accurate amounts to be drawn down in the future. Therefore, we are reviewing actual expenditures associated with the unexpended cash balance to assure the proper uses of the fund account.

The cash drawn down in December 2003, over the amount of expenses incurred during the period requested for the drawn down will be applied to current expenses in this fund during 2005.

  
Husain Mahmoud, Director of Finance

  
Date



## City Of Gary

### Department of Finance

401 Broadway  
Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUD

Director of Finance

M. CELITA GREEN

Deputy Controller

### CORRECTIVE ACTION PLAN

#### FINDING NO. 2004 -4 Payroll Internal Controls and Documentation

**Federal Agency:** U.S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2002-SH-WX-0398, 2003-OM-WX-0067, 1995- CCWX-0508  
**Pass-Through Entity:** N/A

**Federal Agency:** U. S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Award Number:** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council

**Auditee Contact Person:** Husain Mahmoud  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363  
**Expected Completion Date:** 12/31/05

#### Corrective Action:

As the City of Gary continues to assure compliance and accountability of grants relating to the prior year audit findings, our efforts, which have remain ongoing during the reorganization of administrative and fiscal responsibilities since FY 2004, continues with the analyses of expenditures associated with the operation of the grant funds.

During the city's FY 2004 mid year reorganization process, documentation and procedures pertaining to the coordination, collection, and review of the time and attendance records shifted to personnel unfamiliar with the complexity of assuring that each payroll period for time worked is reflected on several officers' time sheets, which should have been reported in the correct period.

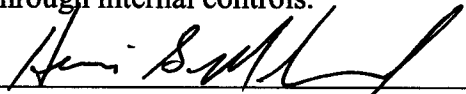
We have implemented the following:

- In house training sessions will be held to assure proper review of time worked for each payroll period along with proper classification on the appropriate grant.
- Time Sheets will show pre-printed dates for each payroll period to assure that time worked is reported on the appropriate Payroll Earnings Forecast Reports.

It has been reiterated to the Police Department Management Personnel, that the policies and precedures regarding the time and attendance reporting must be adhere too, which will consist of monitoring, and reviewing time worked (regular or overtime), on time sheets in order to correspond with the current pay period and comparison to the Payroll Earning Forecast (transmittal).

We will continue to examine and incorporate internal controls established by State and City guidelines for all grants, and make changes regarding the accurate tracking of officers by the police department cost allocation structure. The accounting for records (timesheets), will identify the source of the disbursement of funds provided for financial verification of grants activities.

In contrast, the City of Gary will continue to improve the accountability of the above grant funds through internal controls.

  
\_\_\_\_\_  
Husain Mahmoud, Director of Finance

7/21/05  
Date



## City Of Gary

### Department of Finance

401 Broadway

Gary, Indiana 46402

(219) 881-1363 / Fax (219) 881-1340

SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUD

Director of Finance

M. CELITA GREEN

Deputy Controller

### CORRECTIVE ACTION PLAN

#### FINDING NO. 2004- 5 Local Match

**Federal Agency:** U.S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2002-SH-WX-0398, 1995- CCWX-0508  
**Pass-Through Entity:** N/A

**Federal Agency:** U.S. Department of Labor  
**Federal Program:** Community Oriented Policing Services  
**CFDA Number:** 16.710  
**Federal Award No.** 2003-OM-WX-0067  
**Pass-Through Entity:** Indiana Counter-Terrorism and Security Council

**Auditee Contract Person:** Husain Mahmood  
**Title of Contact Person:** Director of Finance  
**Phone Number:** 219 881-1363  
**Expected Completion Date:** 12/31/05

#### Corrective Action:

As the City of Gary continues to assure compliance and accountability of grants to the prior year audit findings, our efforts, which have, remain ongoing during the reorganization of administrative and fiscal responsibilities since FY 2004, continues with the analyses of expenditures associated with the operation of grant funds.

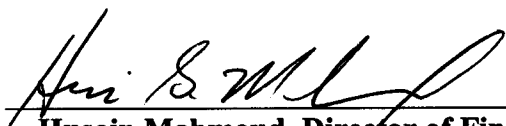
The COPS Universal Hiring Officers were paid increased wages over a period of time. Therefore, the City did in fact pay a higher percentage of the total expenses during these periods. The City will maintain spreadsheets in the future to account for all costs incurred by officers on the COPS Universal Hiring grant, to reflect the higher percentage that the

city is paying. However, the city will have to continue to report expenses on the quarterly reports at the agreed amounts in the original contract to meet the criteria specified for the number of officers at \$25,000 per officer, as well as the percentage necessary for city expenses not to exceed the total grant amount agreed upon in the contract at the conclusion of the grant.

This procedure will allow separate accounting for each program as well as cash matches can be deposited into each fund, if necessary. Any additional accounting items processed in 2005 will be accumulated in the COPS More fund and cash matches made to the fund.

In some cases, it may not be necessary to transfer a cash match to the COPS program where certain line items are budgeted in the General Fund for all policemen, such as other compensation that allows for incentive in educational pay, as well as clothing allowances, and longevity to officers who have been employed for over one year. These expenses that are budgeted in the general fund equal or exceed the cash match.

The city will accumulate all costs per officer to determine if cash matches have been met through budgeted items outlined in the General Fund, or if additional cash needs to be transferred to the respective COPS funds.

  
Husain Mahmoud, Director of Finance

7/21/05  
Date

CITY OF GARY  
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2005, with Mr. Husain G. Mahmoud, Controller; Ms. M. Celita Green, Deputy Controller; Mr. Nathaniel T. Williams, Internal Auditor; Mr. Damon Tsouklis, consultant; Ms. Arlene Colvin, Chief of Staff; Ms. Geraldine B. Tousant, President of the Board of Public Works and Safety; Mr. Charles Hughes, President of the Common Council; and Ms. Rachael Ceaser, member of the Board of Public Works and Safety.